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THE NEXT TEN YEARS  
IN BRITISH SOCIAL AND  
ECONOMIC POLICY

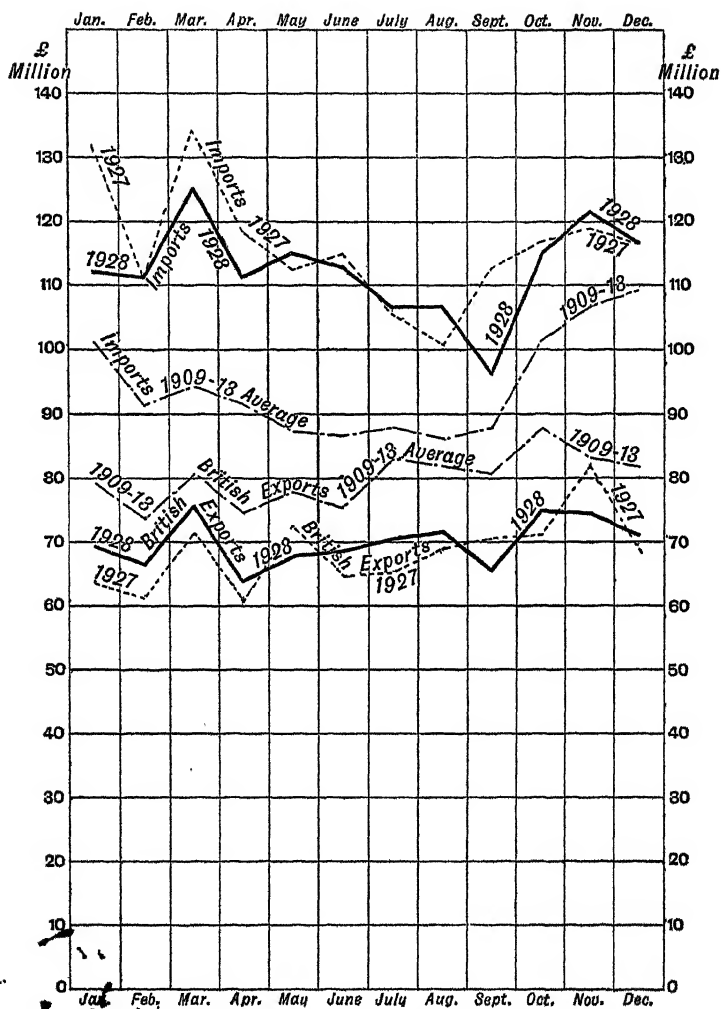


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VARIATION IN VOLUME OF IMPORTS AND EXPORTS OF THE UNITED KINGDOM IN 1927 AND 1928 COMPARED WITH THE AVERAGES FOR 1909-13.

Note.—The amounts shown in the diagram represent the values of Imports and Exports calculated at the average values for the year 1924.

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THE NEXT TEN YEARS  
IN BRITISH SOCIAL AND  
ECONOMIC POLICY

BY

G. D. H. COLE

MACMILLAN AND CO., LIMITED  
ST. MARTIN'S STREET, LONDON

1930

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*First Edition April 1929*

*Reprinted June 1929*

„ *March 1930*

PRINTED IN GREAT BRITAIN

BY R. & R. CLARK, LIMITED, EDINBURGH

## PREFACE

I SET about writing this book because, whether I liked it or not, I had been compelled by the movement of events to think out afresh my social and political creed. I do not mean by this that my fundamental views had changed; and certainly I have no dramatic act of conversion to offer to my readers. But I did feel the need to start thinking again as near as I could to fundamentals; and I felt this none the less for being fairly certain that the result would be not a recantation, but only a restatement of the old conclusions. In one sense—the more basic—my political opinions remain what they were; in another sense they are a good deal altered. I have been a Socialist for about twenty years, and I am, if anything, rather more of a Socialist than ever; but my conception of Socialism has changed perforce with a changing world. The problems of to-day are not the problems of twenty years ago; and the solutions that then seemed all-important now look, in some cases, almost irrelevant. And, above all, the people have changed. The new generation is, in certain respects, markedly unlike the old.

This, of course, is not at all surprising. Twenty years ago, Socialism was still in the main an exercise in fantasy. It was already exerting a powerful influence on the movement of social policy, and much legislation contained a socialistic element. But the complete adoption of Socialism as a way of ordering the community's affairs was not within the region of immediate practical politics. In Great Britain the Labour Party was still a weak third party, hanging on to the Liberal coat-tails; and the Labour Party of those days was at most but semi-Socialist even.



in profession. Nowadays, on the other hand, Socialism is very much a matter of practical politics, not only because the Labour Party is both far more powerful and far more Socialist, but also because the world's troubles far more plainly invite fundamental remedies.

Socialism, as a matter of immediate practical politics, is bound to look different from the more purely propagandist Socialism of my youth. Whether the change would have come about if there had been no war, I do not pretend to know. Certainly, the War has greatly speeded it up, and no less greatly altered the nature of its appeal. "Water is best" sang Pindar; but a new note of urgency would have come into his voice if he had discovered, in the midst of his song, that the house was burning down. "Socialism is best" said the pre-war Socialist; but now he calls for Socialism as men call for water in a burning house. And, in the latter mood, he is far less likely to grumble if only muddy water can be got. Pre-war Socialism could afford to seek after perfection, because it was not in a hurry; post-war Socialism needs practical results.

Long before I became fully conscious of this difference I had grown aware of something wrong. The first hint came, I think, from a sense of *malaise* on the platform. While I was making speeches an inner voice began to say to me, "Do you really believe that? Oh yes, I know you believe it in general. But do you believe just what you said? Aren't you saying just that because it is what you have said before, and what they expect you to say? Are you really sure that is what you mean? My dear good man, isn't what you are saying this instant rather rubbish—rather highfalutin nonsense? Unless you do believe it, you know, you haven't any right to go on making speeches, and leading these people up the garden path. You don't find it easy to answer? Come now, you must answer. Do you believe it? Yes or No?"

My guardian angel, or my tempter—it was hard to tell which—spoke to me like that again and again—and spoke with so much insistency that I found the making of propagandist speeches more and more uphill work. At length I practically gave up making them; I have made hardly any now for some years. But

clearly this could not end the affair. I knew that I was just as much a Socialist as ever, and that Socialism was more than ever an urgent need. Only, somehow or other, I had got my Socialism badly out of focus.

I had, then, to make an effort to think things out afresh; and, as soon as I felt that I had got some of my thinking tolerably straight again, I set about putting the results down in a book. It might be profitable, I hoped, to think aloud, and to throw the results into the common stock. For plainly nothing marks off my need from that of thousands of others who have shared in the experience of the past few years. They, like me, have been trying to readjust and revalue their ideas as they go along; and they, like me, are being forced to realise the necessity of a thorough mental spring-cleaning. For, dust the old ideas and policies as we will, some of them can by no means be made to shine with the old brightness. The gilt is off the gingerbread, and we are in for a gruelling time in the bakehouse making new.

G. D. H. C.

OXFORD,  
*March 1929.*

## NOTE TO PREFACE

I HAVE to thank certain of my friends for the great help they have given me with the book—first, in inciting me to write it, and later, in making suggestions for its improvement when it had been written. Especially I wish to thank Mr. Clifford Allen, Mr. Hugh Gaitskell, the Right Hon. Arthur Henderson, Mr. George Lansbury, Mr. C. M. Lloyd, Mr. D. A. Ross, the Right Hon. Sidney Webb, and Mrs. Sidney Webb. They have helped me greatly; but I hasten to add that they must not be held in any way responsible for my opinions.

G. D. H. C.

*March 1929.*



# CONTENTS

PREFACE . . . . .	PAGE vii
-------------------	-------------

## CHAPTER I

POLITICS, OLD AND NEW . . . . .	I
---------------------------------	---

"Things can never be the same again"—The period of 'Reconstruction'—The return to 'normalcy'—Post-war boom and slump—Banking and unemployment—The restoration of 'private enterprise' a failure—The growth of insecurity—The decay of capitalism—Socialist hesitations—Post-war economic problems: the coal industry—Nationalisation, old and new—Pre-war and post-war unemployment compared—The wages question—The need for fresh political thinking—The flight from politics—The vested interests and the common man—The post-war generation and its attitude—The *intelligentsia*—The case for political Benthamism—Are Utopias out of date?—The cant of Utopianism—And its virtues—The need for a self-acting economic system—Happiness as a political principle—And as a guide to individual conduct—The need for intellectual honesty—We must think out the new problems of the post-war world.

## CHAPTER II

BRITISH TRADE AND THE FUTURE . . . . .	22
--	----

Free Trade and the international division of labour—The growth of world Protectionism—The export of British capital and its effects—Great Britain loses her monopoly—The 'balance of trade' before the War—British exports before and after the War—The post-war 'trade balance'—Can Great Britain afford to specialise as much as before the War?—Or must we redistribute capital and labour?—Our trade in coal and cotton goods considered—We must expect a permanent decline in the export of cheap cottons—The coal problem turns on an increased home consumption—Oil from coal—Increased efficiency may involve displacement of labour—We must rely on exports less than in the past—This involves the development of the home market—And the revival of agriculture—The problem of trade with the Empire considered

—'Europeans' *versus* 'Imperialists'—The policy of the 'City'—Impossibilities of Imperial self-sufficiency—Economic Imperialism and the export of capital—Migration dependent on capital supply—The 'trade cycle' considered—Does it really exist?—The alleged rise of new industries and shifting of industries to the South—Unemployment a proof of our political futility.

## CHAPTER III

## THE UNEMPLOYED . . . . . 48

Work or maintenance—Why Governments prefer to maintain the unemployed in idleness—False economy of this policy—The need for a totally new approach to the problem of unemployment—Work for all—The proposed National Labour Corps—To be based on voluntary enrolment—A disciplined body—Working at a fixed standard of pay and hours—With additional allowances for dependents—The need for industrial training—Conditions of service in the Corps—Answers to criticism of the scheme—The work of the Corps—Cleaning up England—Shum clearance and housing—Attitude of building employers and workers considered—A retrospect of housing policy—The Labour Corps as an emergency organisation—Will it become permanent?—The problem of women's unemployment—Possible use of the Labour Corps by a reactionary Government considered—The Corps will increase Trade Union bargaining power—Why it is indispensable to get the unemployed back to work.

## CHAPTER IV

## THE RESTORATION OF INDUSTRY . . . . . 68

The National Labour Corps only an interim measure—We must take steps for the lasting restoration of industry—The Electricity Act—A first step towards the redistribution of our economic resources—The process of investment under 'private enterprise'—Can we afford to leave investment unregulated?—Do we save the right amount?—Or apply it to the right uses?—Saving and interest rates—Does the investor's advantage coincide with the good of the community?—Many socially desirable investments are unattractive to the private investor—This especially true at present—Destruction of old capital through wrong application of new—Capital is really power over labour—And determines the distribution of labour—The Labour Party's proposed Employment and Development Board—The Liberals' proposed Board of National Investment—Need for a body of this sort—Its functions and powers—In financing public and statutory bodies—And in lending to private industry—Argument from the growth of Finance Companies and Investment Trusts—Their economic effects considered—Wanted: a State Investment Trust—Conditions of advances to private firms and companies—Proposed extension of

## CONTENTS

xiii  
PAGE

State control—State directors on boards of companies—Company Law and Research Associations—The Labour Corps and the Investment Board as complementary aspects of a sound unemployment policy—The economics of communal and private enterprise contrasted.

### CHAPTER V

THE NEW CAPITALISM . . . . . 88

'Rationalisation' and 'Scientific Management'—The gospel of 'industrial efficiency'—What does 'Rationalisation' mean?—Competition no longer extolled as the key to progress—Capitalist combination and its growth—The effects of war-time control—The workers urged to produce more and the capitalists less—The workers' reply to the demand for higher output—Effects of the post-war slump on Trade Unionism—Recent changes in productive technique and workshop practice—The decline of manual skill—Standardisation and its effects—Payment by results under the new conditions—The 'Americanisation' of industry—Mass-production certain to increase—Reaction of technical changes on skilled and less skilled workers and on their relations and relative wages—Craft Unionism largely obsolete—The increased transferability of labour—This weakens the workers' bargaining power—And reacts on the appeal of Trade Unionism—But it leads the workers to look more for political remedies—The future of strikes considered—The changed attitude of the worker to his job—Workshop discipline—A keener demand for leisure—Can Capitalism meet the workers' demands, and so outbid the Socialists?—This is the 'rationalisers' hope—The dilemma of Capitalism stated—Even if it can solve the riddle of production, can it solve the riddle of distribution too?—Capitalist restriction of output—The obsession of the 'limited market'—How coal and cotton met the slump—How and why both failed—The right policy must band purchasing power on what society can produce, and not 'ration' production within a limited purchasing power.—Will 'Rationalisation' solve this problem?—Lord Melchett and the Trade Unions—'Left Wing' critics of the Trades Union Congress—The expediency of a general negotiation—A temporary accommodation needed—How a Labour Government would increase Labour's industrial bargaining power—What terms do the Trade Unions want to make?—Industrial Psychology and its uses—The need for a reorganisation of Trade Union machinery—'Rationalisation' as a challenge to Trade Unionism.

### CHAPTER VI

RATIONALISATION . . . . . 116

Rationalisation further considered—Can it raise the working-class standard of life?—The experience of Germany and America—The displacement of labour by mechanisation—Why rational-

isation is inevitable—But unlikely to advance very fast—The attitude of British employers—Lord Melchett's policy—The legal position of combines in Great Britain—And its effect on the forms of industrial combination—Should the law be amended?—Instability of certain forms of combination—Does it benefit the consumer?—Probable tendency of capitalist policy—Breakdown of divisions between industries—Need for State control of combines and State action to regulate their membership and policy.

## CHAPTER VII

## SOCIALISATION . . . . .

130

Socialism and nationalisation—The need for diverse forms of social control—What is the 'capitalist system'?—Socialism not a rigid scheme—How far do Socialists wish to 'nationalise' industry?—Nationalisation, old and new—Control of economic policy the vital matter—Parliament cannot administer industry—Nor is Civil Service control workable—Industrial administration an expert affair—Need for a system of responsible expert commissioners—Who must be responsible to Parliament—But the problem cannot be tackled industry by industry—The case of coal considered—What is the mining industry?—Desirability of maintaining existing business units in many cases—Public ownership of minerals—Public capital for mining reorganisation—Form and conditions of State control—A Mining Commission—The marketing of coal—Is this plan socialisation?—Ownership and control—The future of the coal mines under socialisation—The problem of wages, hours, and employment—The Eight Hours Act—Need for European agreement on miners' hours—Should the mines be subsidised?—The cotton industry—Need for a wide measure of socialisation, to be carried through with an economy of parliamentary time—Should the railways be nationalised?—Railways and road transport—Methods of railway socialisation—Advantages of socialisation without direct purchase—Need for a co-ordinating Power and Transport Commission—Which would be parallel to the Board of National Investment—The cotton industry again considered—The policy of administrative socialisation summarised—The problem of parliamentary control—The ordinary man's interest in economic affairs—The sphere of expert control—Measurement and publicity as the consumer's safeguards—Need for a reform of Parliament—Long and short views—Socialism must be at once opportunist and constructive.

## CHAPTER VIII

## WORKERS' CONTROL . . . . .

158

Rationalisation and workers' control—Guild Socialism—The influence of war conditions on the demand for control—The shop

# CONTENTS

XV  
PAGE

stewards movement—The effects of the slump—How far do the workers want control?—Guild Socialism reconsidered—Where it was in the right—Industrial Psychology and Welfare Work—The German Works Councils—A Works Councils Act needed for Great Britain—The Councils to be linked up with the Trade Unions—The case for 'collective contract'—And for a system of Industrial Courts—Democracy and representation distinguished—Their respective spheres defined—Guild Socialism again considered—The position of Trade Unionism in the new industrial order—The Washington Hours Convention and the International Labour Organisation—Industrial legislation and the Trade Unions—Scope for 'Guild' enterprise—Aided by State credits—The State and the Co-operative Movement—Need for diverse forms of enterprise co-ordinated under public control.

## CHAPTER IX

WAGES—FAMILY ALLOWANCES—POPULATION . . . 178

The working-class standard of life—Vital necessity of improving it—Why it is difficult to bring about a considerable rise in wages—The relation between wages and employment—The 'economy of high wages' and its limits—The redistribution of incomes by taxation the best immediate way of raising the standard of life—High taxation need not hamper industry—How far incomes are redistributed to-day—The case for Family Allowances—Why these must be financed by taxation, and not by means of insurance or an 'industrial pool'—How large a scheme can the State afford?—The policy of a 'living wage' for all considered—Developments of the Trade Board system proposed—Wanted: a Central Trade Board—The attitude of a Labour Government towards Trade Union attempts to raise wages—The population problem—Effects of Family Allowances on birth-rates, death-rates, and migration—Birth-control—Quality more important than quantity in considering the population problem—Food supply in relation to population—The 'optimum' theory criticised—Effects of Family Allowances on Trade Union bargaining power—Redistribution of incomes as a stimulus to economic progress—Rival principles of payment, based on need and service—How they can be practically reconciled—Dividends for all?—Shall we reach full equality of incomes?

## CHAPTER X

THE SUPPLY OF CAPITAL . . . 201

How will the measures so far proposed affect the supply of capital?—How far can the rich be taxed?—Functions of the private investor—The choices open to him—Large and small investors—The effects of redistribution of incomes on the invest-



ment market—And on State borrowing—Income and 'capital appreciation'—Can the latter be taxed?—Is the flow of capital rightly directed between industries?—Or between industrial and other claims?—Types of investment—Fixed and circulating capital—'Free' capital and 'sunk' capital—Do banks create credit?—How bank credit affects the flow of capital—The relation between credit and capital—The international flow of capital—Will high taxation restrict the supply of capital?—Why men save—The importance of business reserve funds—The 'national savings' analysed—How British industry is financed—Should business reserves be taxed more highly?—Need for increased reliance on reserved profits for the financing of industry—Policy of the National Investment Board as borrower and lender—Need for economy in the use of the available supply of capital—Development of State Savings Banks and of Municipal Banks—The case for the nationalisation of insurance—Increased wealth as the key to an abundant supply of capital—The future of taxation under Socialism.

## CHAPTER XI

## BANKS AND CREDIT . . . . .

224

The dislocation of the financial mechanism by the War—Its consequence in the activities of 'currency cranks'—Necessity of tackling the financial problem—The power of the banks and the City to embarrass a Labour Government—The present banking system considered—The Bank of England as the chief controller of the volume of credit—The joint-stock banks as the chief controllers of its direction—The competing demands for credit—Position and functions of the Bank of England—And of the joint-stock banks—The question whether bankers 'create credit' further considered—How the Bank of England controls the volume of credit—Bank Rate and open market transactions—The rate of interest and the demand for money—Bankers moved less by the profit motive than by their ideas of 'sound finance'—The insistence on the 'liquidity' of banking resources—How the banks restrict credit—The problem of 'frozen credits'—Does banking policy favour speculation at the expense of industrial needs?—The reluctance to grant long-term credits—The London financial houses and their work—Do bank credits involve inflation?—The quantity theory of money—The relation between credit and currency—The expansion of credit and the price level—The gold standard and its effects—Can credits be issued more freely?—Yes, if production can be increased—The State must socialise the Bank of England—And place it under an expert commission—It must also socialise the joint-stock banks—But not the financial houses at present—The economics of State banking considered—Financial policy an essential element in the revival of industry—But finance cannot create—It is a vital, but subsidiary, instrument of economic reorganisation.

# CONTENTS

xvii

## CHAPTER XII

### AGRICULTURE AND THE LAND

PAGE

247

Political parties prolific in agricultural policies—The farmer as an instinctive protectionist—But no party dare give him protection—Why a tariff on foodstuffs is impossible—The economics of British wheat-growing—Reactions of higher prices on rents—Forms of protection without a tariff—Proposals to stabilise prices by the control of imports—Bulk purchase schemes considered and approved—But will they benefit the farmer?—They are more likely to lower prices than to raise them—Agricultural production can be increased only if more can be produced at an economic cost—It is therefore necessary to concentrate on improving the efficiency of production and marketing of home produce—Wheat the least hopeful field for experiment—Imports of foodstuffs analysed—Cost of imported meat, butter, cheese, eggs, vegetables, and milk—We could produce far more of these at home—The case for an extension of small holdings for market-gardening, poultry-keeping, dairying, etc.—Access to the land—The British land system and its breakdown—The case for land nationalisation—The method proposed—Urban land values should be taxed—And the revenue given to the Local Authorities—Sitting tenants should usually be left undisturbed—The State directly, as well as the County Councils, to provide small holdings—A State Agricultural Commission—The provision of capital for the farmer—And of long-term credit—The creation of co-operative agencies for short-term credit—A National Agricultural Bank—The reasons for the slow growth of agricultural co-operation—In what forms it can best be developed—Co-operative bacon factories and their problems—The function of co-operation in reducing swollen marketing costs—Need for State action to stimulate and co-ordinate local co-operative effort—Progress bound to be gradual—Immediate steps summarised—The position of the agricultural labourer—Effect of Family Allowances on his standard of life—Agricultural wages and their regulation—Small holdings and the labourer—Do the unemployed want to go back to the land?—How far should Britain feed herself?—The idea of self-sufficiency abroad—But the position of our export trades does indicate the need for greater food production at home.

## CHAPTER XIII

### THE CONTROL OF TRADE AND PRICES

276

Middlemen's costs too great—Need for improved marketing conditions—The work of the Co-operative Movement—The tendency of productive concerns to do their own marketing—Or to start joint selling syndicates—Similar to producers' Co-operative Societies—How far can such bodies control prices?—Bulk of

distribution still 'unrationalised'—Dealers and their functions—Could these be performed more cheaply?—Desirability of stimulating the growth of consumers' co-operation—Co-operation and municipalisation: their respective spheres—Position of the small trader—Progressive socialisation of large-scale retail distributing agencies—The promotion of joint selling agencies under State control—The produce Exchanges—Lessons of war-time control of trade—The rebuilding of Control Boards—The problem of prices—The Food Council—Need for a better technique of continuous investigation and report—And for a public mechanism for the control of prices—The organisation of the export trades—The future of the merchant capitalist.

## CHAPTER XIV

## THE EMPIRE—FOREIGN AFFAIRS . . . . . 292

This chapter limited to the purely economic aspects of imperial and foreign policy—The possibilities of developing Empire trade—And migration—Gains and losses of Empire—The exploitation of native labour—British and native capitalists—British policy in Africa—Impossibility of withdrawal from imperial commitments—Great Britain and the Dominions—Investment of capital within the Empire—Bulk purchase of imperial products—The case against tariff preference—Forms of preference without a tariff—Should the Dominions grant tariff preference?—Trade relations with the non-self-governing territories of the Empire—Case against planter-control—The Empire Marketing Board and its work—Need for its development—Desirability of pooling the world's economic research—Is 'Imperialism' the enemy?—Modern growth of Empires—Need for a change of policy designed to put native interests first—The problem of 'mandated' areas—The League of Nations in relation to non-self-governing peoples—Economic functions of the League—Disarmament—The International Labour Organisation—The International Economic Conference of 1927—The lowering of barriers to international trade—The growth of international capitalist combination prepares the way for international State control—Need for international action to raise the standard of life—Great Britain's interest in this—The Russian problem—Case for full recognition—China—Imperialism as a cause of war—The rights and duties of Britain as an imperial power—Why the British Empire should not be broken up.

## CHAPTER XV

## LOCAL GOVERNMENT . . . . . 312

Four reasons for the breakdown of the British system of Local Government—Changes in the distribution of population—The unsoundness of local rates—The reactions of unemployment—

# CONTENTS

XIX  
PAGE

The development of road transport—The Conservative De-rating scheme considered—Its effects on local finances—Block *versus* percentage grants—The reform of the Poor Law—Highway administration—The case against the de-rating proposals—Unfairness to householders and traders—De-rating virtually a subsidy—Not needed by prosperous industries—The new Government grant scheme unfair in its effects—Block grants an instrument of reaction—The future of the Poor Law—A half-hearted reform—Unemployment and the Poor Law—Roads and the Road Fund—Further reforms of the rating system—The case for a combination of block and percentage grants—The redistribution of Poor Law functions—The problem of powers—Wanted: a Local Authorities Enabling Act—The future of municipal trading—The problem of areas—Town and country in Local Government—Housing problems—Town-planning and region-planning—The government of London—The case for Regionalism—First steps towards regional organisation—Electricity and region-planning—The classification of urban areas—The reform of local finance—The District Auditor and his powers—The growth of central control—Need for administrative devolution—The future of regional government.

## CHAPTER XVI

EDUCATION . . . . . 341

Recent educational progress reviewed—The rise in educational standards—The 'economy' campaign—The Report of the Hadow Committee—Defects of the present administrative system—The false division between 'elementary' and 'higher' education—Growth of the 'elementary' system—Central Schools—Need for unification of administrative control—Primary and post-primary education—The present position of 'secondary' education—Raising the school-leaving age—A new secondary school system—The curriculum—The place of manual education—Should the schools provide vocational training?—Secondary education for all—The Grammar Schools and their functions—Future of the school-leaving age—Free places and maintenance allowances—Class-divisions in the educational system—Administrative reforms—Scotland—The problem of educational areas—Regional Universities—The school medical services—The supply and equipment of teachers—The teachers and the Universities—The State in relation to University education—University extra-mural education—Research at the Universities—A standing Universities Commission—State grants for University work—The development of Adult Education—The Workers' Educational Association—Adult Education and the Trade Unions—Education *versus* propaganda—The National Council of Labour Colleges—The problem of State grants—The need for better adolescent education—A summary of immediate reforms.

## CHAPTER XVII

## THE LABOUR BUDGET—DEBT AND TAXATION

PAGE  
365

Changing attitude towards the problem of taxation—Taxation as an instrument for the redistribution of income—The level of taxation before and after the War—The growth of national expenditure analysed—How the national revenue is raised—The National Debt—The problem of debt conversion—Repudiation impossible—The Capital Levy—The Colwyn Report and the proposed surtax—The Sinking Fund—The case for its suspension—The American debt—The Socialist way of wiping off the debt—The taxation of inheritance—The Death Duties—The Rignano scheme—Dr. Dalton's proposals—A plan for the abolition of inheritance—The case of landed estates—Income tax and surtax—Suggested revision of the taxes on incomes—Customs and Excise—The incidence of indirect taxation—The liquor taxes—Tobacco—Sugar and tea—Other indirect taxes—Protective duties and their yield—Prohibition of imports preferable to a tariff—Repeal of protective duties—Socialism and Free Trade contrasted—Luxury taxes—The effect of the proposed changes in taxation as a whole.

## CHAPTER XVIII

## THE LABOUR BUDGET—EXPENDITURE

389

An analysis of the national expenditure as it is—Revenue-producing expenditure—Debt charges—The fighting services—The costs of government—The social services—War Pensions—Proposed reductions in military and naval expenditure—Only the Debt and the fighting services offer real prospects of economy—New expenditure required—The cost of unemployment—The distinction between capital charges and charges on current revenue—The methods of new borrowing—Its effect on conversion operations—Cost of the National Labour Corps—How far will it be an additional cost?—The Unemployment Insurance Acts—Rates of pay for members of the Labour Corps—Saving in Poor Law expenditure—Family Allowances—Cost of various schemes—Case against differential rates—Cost of educational reforms—The school-leaving age—Effects on unemployment of a high school-leaving age—Cost of Local Government reforms—Taxation of Land Values—The Labour Budget as a whole—Total potential increases in expenditure—Reductions in existing charges—Loss of revenue—Yield of new taxes—Are the proposed rates of taxation too high?—The sum raised will be largely redistributed as income—The relation of the proposed taxation to the national income—Its effects on the supply of capital—Will there be enough 'saving'?—Difficulties of the transition—The vital problem is the restoration of industry.

# CONTENTS

xxi

## CHAPTER XIX

	PAGE
THE NEXT LABOUR GOVERNMENT . . . . .	414

This book deals solely with immediate measures and not with Socialism in the abstract—A Labour Government is an imminent possibility—But it cannot attempt to establish Socialism at a blow—Importance of selecting the right issues for immediate action—Why this book does not discuss personalities—The Labour Party's official programme—What is Socialism?—Need for a re-definition in the light of post-war problems—Post-war stabilisation and its effects—The stabilisation of unemployment—The differences between the Labour 'right' and 'left' wings considered—How far are they real differences?—Communism in Great Britain—A negligible factor—The task facing the next Labour Government summed up.

## CHAPTER XX

CONCLUSIONS . . . . .	423
-----------------------	-----

The arguments and conclusions of the preceding chapters briefly summarised.

## APPENDICES—

I. BRITISH TRADE . . . . .	437
II. UNEMPLOYMENT . . . . .	444
III. WAGES . . . . .	449
IV. THE FLOW OF CAPITAL . . . . .	451
INDEX . . . . .	453



## CHAPTER I

### POLITICS, OLD AND NEW

"Things can never be the same again"—The period of 'Reconstruction'—The return to 'normalcy'—Post-war boom and slump—Banking and unemployment—The restoration of 'private enterprise' a failure—The growth of insecurity—The decay of capitalism—Socialist hesitations—Post-war economic problems: the coal industry—Nationalisation, old and new—Pre-war and post-war unemployment compared—The wages question—The need for fresh political thinking—The flight from politics—The vested interests and the common man—The post-war generation and its attitude—The *intelligentsia*—The case for political Benthamism—Are Utopias out of date?—The cant of Utopianism—And its virtues—The need for a self-acting economic system—Happiness as a political principle—And as a guide to individual conduct—The need for intellectual honesty—We must think out the new problems of the post-war world.

IN the latter days of the Great War this country was very full of persons who went about saying that things could never be the same again. We were on the threshold, they told us, of a new world—a world which would differ deeply from the old in its social and economic structure, in its methods of government, and, above all, in the spirit and the ideas by which it was inspired. The War, beastly and tragic while it lasted, was to prove for us all a purifying and illuminating experience. We were to be gifted, by its means, with new vision and with a new power of corporate action for the regeneration of society. Out of suffering and loss was to come a new sweetness into the world of men.

How swiftly that vision faded most of us remember only too well. We saw the blessed word 'Reconstruction' blossom, and we saw its petals fall as, after a brief and illusory period of apparent abundance, the world passed swiftly into a fit of morbid depression. From the moment the War ended every vested interest was busy making things as nearly the same again as it could. The 'controls' and improvised 'Socialisms' of war-time were



removed as speedily as might be. Class-barriers, where they had been breached, were rapidly rebuilt. Even Socialists, and radicals of all sorts, fled back hastily to pre-war policies and pre-war modes of thought. The whole country—and, indeed, most of the world outside Russia—seemed intent on forgetting the years between, and on picking up again both the habits and the conflicts of old times just at the point at which the War had interrupted them.

Up to a point, the attempt was astonishingly successful. On the surface of things, the post-war world was furbished up to look very like the old world of pre-war days. A superficial observer might have noticed little difference between them. The social stratification of the community, the structure of the economic system, its habits of daily life, outwardly resumed their old aspects. The camps, the huts, the darkened streets of the war years gradually vanished; the war-time soldiers resumed their civilian attire. So might a patient restored to a precarious mental health try to pick up the threads of normal life after a stay in the asylum—anxious above all to blot out the whole horrible memory of that tragic interlude.

And yet—everyone knew that things were not the same. And there were outward and visible signs of the change that stared one in the face. In politics, Liberalism, the greatest traditional force in British public life, had emerged from the War a broken, divided, and discredited remnant, devoid of coherent faith or policy for the future, and engaged in an unedifying faction-fight which plainly revealed its nakedness. Labour, which before the War had been but a group, asserting—under difficult conditions—its independence of Liberalism, had become a challenging power, of which men had to think seriously as a potential Government. Trade Unionism had practically doubled its strength, and more than doubled its insistence. The National Debt was ten times larger than before the War, and involved an annual charge on the taxpayer equal in money to the whole pre-war budget of the country. The post-war price-level was to everyone a constant reminder that things were not the same. The re-furbishers might restore most of the external appearances of the old world; but to bring back the pre-war golden sovereign was beyond their power. The paper pound was an ever-present sign that more things than money had to be revalued.

Still, though Great Britain could not put back everything as

it had been, her vested interests made haste to put back all they could. Men who had cried 'Business as usual' during the early stages of the War cried now for a return to 'normalcy'. Only Labour stood apart, asking that the lavish promises of a new world should be fulfilled. And even Labour's conception of a new world was that of a world that should satisfy its pre-war claims. It asked more insistently for the same things as it had been demanding in 1914. Higher wages—shorter hours—nationalisation. These, in 1919 as in 1914, made up the essence of the Labour programme.

For a time, Labour got two of these three things. It was bought off with higher wages and the eight-hours day, and checked, by these concessions, from insisting too sharply on its major claim. The miners and the Sankey Commission of 1919 settled this particular issue. The miners threatened to strike for these three things. The Government promptly gave them higher wages and shorter hours, but not nationalisation, though a majority of the Commission recommended it. And the miners did not strike on the larger issue: nor were the other Trade Unions prepared to support them in striking upon it. The great Labour menace—the obvious immediate obstacle to the return to 'normalcy'—was rapidly discounted by concessions which left the structure of capitalism apparently intact.

For a time all went well; for one commodity—money—was amazingly plentiful in the world while the statesmen at Versailles were devising the Peace Treaties. What did spending matter; for was not Germany to pay for all? And, in any case, the habit of thinking recklessly in millions had gone to our war-time statesmen's heads. They would promise anything—in paper-money—anything that did not involve a change in the real structure of the social system.

But already the bankers were hinting that there must be a return to 'normalcy' in money as well. The pound must learn again to 'look the dollar in the face'. The sacred gold standard must be restored equally with the rest of the old economic structure. Paper was not wealth, but merely a claim to a share in wealth, and the more there was of it the less it would be worth in real things. It was all very well to concede higher wages and shorter hours; but if higher wages meant more paper and shorter hours less goods, the higher wages would purchase less and not

more. Nor would this be healthy for the bankers themselves—large holders of gilt-edged securities bearing a fixed interest—or for any section of the *rentier* class. Prices must come down; paper-money and credits must be reduced; the world must come back to pre-war prices, and the workers realise that higher real wages could come only as the reward of increased production.

For the moment, the bankers did not get their way; for Labour had to be bought off, and paper-money was the easiest currency in which to buy it. Prices soared; and wages mounted in their wake. Daring speculators made huge fortunes and, if they were prudent, retired upon their easily gotten gains. The workman lived for a while in a fool's paradise; and the gulls and pigeons of the middle classes shared his paradise with him. But the pace was too hot to last. The post-war boom was purely fictitious. It was, throughout, a boom of prices, and not of production. An illusory prosperity was created by working overtime in the printing-presses of the world. Real purchasing power was lacking. Before long, demand slowed up, paused, came to a dead halt. The great paper-money boom passed, with extraordinary swiftness, into the great depression. 'I told you so', said the bankers; and, assured of their own rightness and of the certain appreciation of their own holdings of gilt-edged securities, they tightened credit, and made depression infinitely more depressed. The world came back to 'normalcy' with a start, and found, to its infinite distress, that 'normalcy' was not normalcy after all, but a sub-normalcy that devitalised the entire national being. Unemployment spread fast; wages, after a few disastrous strikes and lock-outs, came tumbling down; industrial profits and share values were sharply reduced; the margin between imports and exports, unobserved hitherto, loomed ominously large; the excess profits tax turned from an asset into a liability; the burden of the National Debt was greatly increased as prices fell. Only the bankers, the *rentiers*, and the workers and capitalists in a few favoured occupations not affected by the slump, held up their heads and rejoiced in the further progress towards the restoration of normal conditions. Across a broken England, the pound could once more look the dollar in the face.

Obviously, it would be absurd to blame the bankers for all the evils of the past few years. They are only one among the many vested interests which have insisted on the return to normal con-

ditions; and they have the special excuse that, however ill the return may have suited others, it has suited their book very well. At least equal blame attaches to other vested interests which, blind to the changed conditions of the post-war world, insisted on attempting to restore a situation which could not be put back. Banking is again normal; but industry emphatically is not. The banker has played his full part in the wrecking of post-war Britain; but he has at least the excuse that he has not wrecked himself, and that concentration on his own concerns may have blinded him to the needs of others, and to the realities of the situation as a whole. The industrialist has no such excuse. In attempting an impossible return to pre-war conditions, designed to preserve his own vested interests and traditional ways, he has wrecked his own industries as well as the economic prosperity of his country. The banker may have been a knave; the industrialist has been a short-sighted fool into the bargain.

In the course of the ten years since the War ended, the outward forms of the pre-war capitalist system have been for the most part successfully restored. But nothing has availed to restore its substance. We can put back the old institutions, but we cannot get them to work in the old way. We have returned to the gold standard, but not to the pre-war level of prices. We have restored private enterprise; but the old business methods no longer lead to the old results. We have resumed pre-war methods of diplomacy; and the most sinister fact of all is that diplomacy is about the only thing that does appear to be working very much in the old way.

It is not at all surprising that this attempt to pick up the threads of economic and political life where they were dropped in 1914 should be a failure. For the world of to-day, and Great Britain's position in it, are in many vital matters fundamentally changed. This is most marked of all in the sphere of overseas trade, on which we have made ourselves dependent more than any other country. The changes in political frontiers, the growth of industrial production in new countries, the impoverishment of some markets and the deliberate destruction and boycotting of others, the intensified competition of low-paid labour in the East and of high-paid labour, aided by an abundant supply of capital, in the West, the decline in our own productive efficiency in certain industries under the stress of war, and many other

causes have conspired to reduce the volume of our export trade, and to compel us to fight hard even to retain what is left. Our industrial system has been thrown out of gear, largely by these forces; and, once disarrayed, it is prevented from recovering its poise and efficiency by the height of the social costs which its derangement involves. Costs and taxation are alike high because industry is out of order; and industry is further disordered because costs and taxation are high. We find ourselves in a vicious situation in which the conditions of depression tend to become self-perpetuating.

It is easy enough to admit these unpleasant facts, but far harder to bring ourselves to the acceptance of their logical outcome. For the first needs only candour, and the second imagination as well. The easiest reaction to the recognition that things are wrong is to attempt their cure by means of pre-war remedies, at most but intensifying the dose in face of the greater severity of the disease, but not in any way changing its character. But what if we are suffering from a new disease? Will even a double dose of cough-mixture help to cure the smallpox? We may call the new disease by an old name—unemployment, for example. But what if this be but the name of a symptom, and if the unemployment of pre-war and post-war years proceed from fundamentally different causes? Short-time working, relief works, and the dole may then be remedies fully as inappropriate as cough-mixture.

Let us endeavour, then, to set out broadly certain of the great changes in the world that appear to call imperatively for a thorough overhauling of policy and doctrine. The first, and most obvious, change is the growth of insecurity. Up to 1914 all parties in Great Britain—not excluding the Socialists—lived in an atmosphere of political, economic, and social stability. Even those who were wont to prophesy the inevitable coming of a World War had no advance vision of its results. The political system appeared thoroughly stable, with the Labour Party as only a remote challenge to the assured dominance of the two great historic parties. The economic system, despite alarms and excursions by Joseph Chamberlain and others earlier in the century, seemed to be a thoroughly flourishing and securely established concern. The stratification of social classes seemed all the stronger for the narrow bridges from class to class provided by public education. Even in the great labour unrest that immedi-

ately preceded the War there was no urgent threat to the stability of capitalist society. Unemployment we had indeed always with us, and the number of the unemployed was swollen in some years to an alarming extent. But boom followed slump, and there was no festering mass of permanent unemployment to serve as a warning of capitalist decay. Socialists could argue about the form of the future society and the best means of attaining to it in the confidence that the old society would remain securely in being while they argued. Even revolutionaries in pre-war days really took the stability of the capitalist order for granted, and treated capitalism with the respect due to a going concern.

To-day, the situation is changed. Capitalism is not in Great Britain in any danger of immediate or dramatic collapse; but it is plainly sliding down hill. The clearest outward sign of its altered status is the existence in our midst of a great body of unemployed workers to whom it can hold out no reasonable hope of reabsorption in industry. The impotence of private enterprise, and the necessity for the community as a whole to undertake an increasing amount of social regulation and reorganisation, emerge ever more clearly. These things ought, one might suppose, to fill the Socialist movement with new and virile confidence. Are not the Socialist predictions coming true? Is not Socialism more and more plainly defined as the sole remedy for the world's disease? Yet, curiously enough, the effect is quite other. The Socialists, for the most part, are not encouraged by the growing difficulties of capitalism: they are frightened by them. For, as the time for the practical testing of the Socialist proposals draws near, Socialists themselves become more and more doubtful of their efficiency. Will it really help to nationalise the coal mines or the railways? Can we really guarantee the right to work or a reasonable minimum wage without dislocating industry? Have we really an efficient substitute for the saving of the rich as a means of providing the capital for industrial development? How will a Socialist community fare in the environment of a predominantly anti-Socialist world? Questionings such as these, suppressed or openly spoken, are very much in the mind of every intelligent Socialist as he sees his party draw nearer every year to the responsibility of political power.

These questionings are not in the least surprising: nor need

the answers, even if they are not immediately reassuring, discourage us at all. For the fact we have to face, and ought to be strong enough to face without discouragement, is that these policies, of whose inadequacy we are now unpleasantly aware, were worked out in order to meet a situation very different from that which confronts us to-day. The surprising thing would be if a programme designed, whether by Socialists or by anyone else, to meet the conditions of 1900 or 1914 were still apposite or adequate to deal with the problems of 1929.

Take the case of the coal trade. Socialists wanted to nationalise the mines in pre-war days, partly in pursuit of their desire to bring all basic industries and services under social ownership, partly in the belief that nationalisation would make easier the settling of fair conditions for the miners, and partly—last but not least—with the object of transferring a valuable economic surplus from private to public appropriation. The mines were then prosperous; higher and higher profits were being made by the coal-owners, and there was little or no serious unemployment. The problem of technical reorganisation—of combating the tendency to rising costs of production by increased use of machinery, by sinking deeper shafts, by the development of by-products and auxiliary industries, and by more efficient marketing—existed indeed, but was not regarded as urgent. These things had hardly penetrated into the mind of the average Socialist even as important factors in the problem of nationalisation. The campaign for social ownership was waged on the assumption of capitalist prosperity, and with the object of taking over for the public benefit a going concern.

The problem of nationalisation, therefore, appeared, in pre-war days, primarily as a question of finance and administration. It was necessary to settle on what basis the mines should be taken over from their existing owners—whether, and to what extent, compensation should be given to mine-owners and royalty owners; and it was necessary to decide on the best form of administration under social ownership. Should the mines be transferred to a Civil Service department similar to the Post Office, or placed under some sort of Guild control; or managed by an independent body of Commissioners? There were Socialists who were for compensation, and Socialists who were against it. Some wanted to buy out the mine-owners, but to confiscate

royalties. Some wanted to issue National Mining Stock to the owners in exchange for their claims; some preferred an unassigned addition to the National Debt; some favoured a system of terminable annuities. Again, Collectivists and Guild Socialists disputed about the proper form of management, and there were all manner of hybrid schemes which aimed at making the best of both.

The point which is relevant here is that all these discussions were carried on in the security of an assumption now quite impossible to make—that the mining industry was generally in a sound condition, and that in taking it over the public would be entering upon a highly profitable inheritance. How to sell the coal, and how to keep the mining population employed, were questions that scarcely arose. Doubts might be expressed by anti-Socialists about the efficiency of the mines under Socialism, and especially about the possibility of the State carrying on the export trade with success. But their arguments rested on pure assumptions about the inefficiency of public enterprise, and not on any contention that the problem of making the coal industry pay presented inherent difficulties.

To-day, all this is changed. The would-be nationaliser has to deal with an industry that is sick, and to devise plans for its restoration to health. He has to show that nationalisation will at any rate make it easier to increase efficiency and keep the miners at work. And this is bound to affect not only his manner of arguing his case, but also the positive nature of his proposals.

The mining industry is, of course, no isolated instance. For every great productive industry which Socialists proposed to nationalise before the War presents in some degree similar problems. The situation has radically changed; and it has to be faced in a new way.

Or take the problem of unemployment. Every year before the War the Labour Party used to introduce into Parliament a Bill demanding the recognition of the 'Right to Work'. Though this demand was rejected by the capitalist parties, and even unemployment insurance was in 1914 still in the experimental stage, the provision of work for all who were without it (at any rate for longer than a brief interval between one job and another) did not appear to Socialists to present any very great difficulty. So simple an expedient as the hastening or delaying of public works



in view of the general state of employment (advocated in the famous Minority Report of the Poor Law Commission in 1909) was rightly regarded as a major contribution towards solving the problem. In times of trade depression unemployment was serious; but in seasons of good trade it became almost negligible, and most of those who fell out of work usually remained unemployed only for a short time. Unemployment was already recognised as a disease of capitalist society; but the Socialist was confident that he knew how to deal with the major part of it without any considerable effort.

This situation, too, is changed utterly. Not merely is unemployment chronic—the greater part of it is now of a different kind, and recalls rather the dismal story of the handloom weavers' decline in the first half of the nineteenth century than any more recent experience of the industrial workers. It is no longer a question of intervals between jobs, or of seasonal fluctuation, or of a mere 'reserve of labour' which can look confidently for re-employment with the improvement of trade. A large mass of the unemployment of to-day is recognised as arising from a permanent redundancy of labour in certain industries. There are many thousands who have been unemployed for years on end, and many who have never had a settled job since the War ceased. There are many thousands for whom there appears to be no prospect of re-employment at any time in the towns or villages where they dwell, and no vacancies are available in other centres to which they can be transferred. The abolition of unemployment is no longer to be achieved by the mere exercise of a little more common sense and foresight within the existing structure of industry. If it can be accomplished at all, it evidently involves a courageous grappling with the entire industrial problem, and a drastic re-shaping of the economic order on new and unfamiliar lines. Socialists may believe that Socialism can accomplish this, but they cannot hold that it can be done without prolonged and exceedingly difficult effort, calling for high qualities of sustained energy and practical wisdom on their part.

Or take the question of wages. It is true that in the first decade of the present century real wages were not keeping pace with the slow but steady rise of prices. This, however, appeared to most Socialists to be merely a temporary setback, and when, in the years immediately before the War, both money and real wages

began again to rise as the Trade Unions took advantage of the growing prosperity of industry, the faith revived that it was only necessary to squeeze the capitalist orange more strongly in order to secure further improvements in the working-class standard of life. Trade Union action and minimum wage legislation seemed, in their respective spheres, powerful levers for the raising of wages for organised and unorganised workers alike. The rich were getting steadily and rapidly richer; and it was natural that the poor should confidently hope to win a greater share of the growing wealth by improving the quality of their political and industrial action.

Yet again is the situation of to-day radically different; for now wages are actually being drawn down in one industry after another under pressure of international competition; and the capitalist's contention that he cannot afford to pay more has at the least a far greater appearance of plausibility than of old. It would, doubtless, be easy enough for a Socialist majority in Parliament to pass a Minimum Wage Act decreeing for every worker employed a reasonable living wage; but the Socialist of to-day knows very well that, if we were to do this *and this alone*, the most likely immediate effects would be first a huge addition to the number of the unemployed and, secondly, an economic crisis which would quickly sweep away the Government responsible for the measure. The Socialist may have faith, now as before the War, in the 'economy of high wages'; but he is well aware that this does not mean that the more wages an employer pays the more profit he is certain to make. The ability of industry to pay good wages is clearly seen to depend on scientific organisation, and on a drastic readjustment of economic relationships over the whole of the social field. The wages question can no longer be regarded in isolation: it is bound up inextricably with the entire problem of social and economic reorganisation.

Under these changed conditions, the propagandist who goes to his audience with the old familiar phrases may elicit a cheer—for men often go on cheering automatically when they hear a familiar war-cry of their youth, as Liberal audiences used to cheer a generation ago at the mere mention of Mr. Gladstone's name. But he will carry no conviction even to the older members of his audience, while from the younger he will draw not even the barren tribute of mechanical applause. He must avoid

phrases that are devoid of meaning in the changed conditions of the post-war world. He must recognise that the words which were trumpet-calls even a generation ago have lost their power, because they have lost their relevance, and will win now at most a bored assent, and often a contemptuous silence. He must find new words to fit new situations; and in order to find the words he must think new thoughts.

But it is easier to know this than to act upon it; for fresh thinking about fundamentals is a troublesome affair. It is far easier, up to a point, to go on making shift with the old policies and projects, adapting them half-heartedly to changing situations without any attempt at a thorough re-examination of the basis on which they rest. And, when this shift will no longer serve, it is easier to give up bothering about politics at all, in any serious way, than to submit our weakening creeds to drastic reconsideration.

The older adherents of all the political parties are largely in this situation to-day. They will not be at the pains of a thorough revision of their policies in the light of a situation which has utterly changed. Consequently, either they go on saying the old things, with only minor adaptations in their form and expression, or they become increasingly reluctant to say anything at all, and either drop away from politics altogether, or at least allow their interest in them to become slack.

This would not matter so much, if the younger generation could be relied upon to do the thinking which their elders shirk. But the attitude of the older generation inevitably reacts on those to whom pre-war ideas and policies can be only of historical interest. The younger generation is conscious that some of its elders have stopped thinking, and taken to cant as a substitute, and that others have grown bored and cynical in their political attitude. And both these things incline youth to wonder if, after all, politics deserves to be taken as seriously as the business of individual living. If the politically minded have accomplished so little, and seem to have so little faith in their ability to accomplish anything, why worry? There are plenty of other things besides politics that urgently demand the attention of youth. Why not mind one's own business, and let the common business of society go, or at most give to it the occasional and perfunctory tribute of a vote?

There are, of course, in the modern community any number of strong and alert vested interests to whose advantage it is to encourage this attitude to the full. Of these by far the most important and sinister is the popular press; for the newspaper's power of making its readers do what it wants at occasional moments of excitement depends on their not thinking steadily or continuously about political matters between times. The politically minded voter is relatively inaccessible to 'stunts', because he has been thinking already about the problems to which the stunts relate. The voter who does not bother about politics between elections is always liable to be carried away for the moment by a meaningless but appropriate cry. Its influence lasts but for a moment; but the moment is enough to place a Government in power, or to defeat a measure obnoxious to the interests which raise the cry. The daily newspapers exert little continuous influence over the minds of their readers; but their power to wield for a few days the weapon of a 'stunt' is immense. It depends essentially on the fact that most of their readers pay little or no continuous attention to political affairs.

Whatever, then, diverts the mind of the younger generation from politics at the same time increases the power of the 'stunt' press. And there is only one thing that will serve to keep the minds of the younger generation fixed on political affairs—the sense of impending great events. If something big is going to happen as a result of politics, youth will ardently wish to be there on the night. If nothing much is going to happen, other matters will claim its care. Accordingly, when parties and leaders appear to be uncertain of their own ideas, it is not in the least surprising that the younger generation should find their hesitating appeals unattractive.

Lack of appeal, and lack of response. Naturally, these react on each other. The leaders become more doubtful of themselves because their appeals miss the mark; and those to whom they appeal become more unresponsive as the doubt grows more pronounced. The consequence is that, at this moment, Great Britain is not so much failing to solve its political and economic problems, as failing even to try to solve them. The mind of the nation is not pulling its real weight.

I do not suggest that this is solely the fault of politicians who have lacked will or imagination to face the realities of the post

war world. It is also partly the result of a change in the post-war generation of men. But this change, which need not be politically disastrous, has become so largely as a result of the failure of the politicians to face up to the need for a re-examination of their creeds. In particular, if we want a healthy Socialist movement, we must be prepared to restate Socialism drastically in terms both of new material problems and of a new generation of men.

My point here is twofold. The problems of the post-war world are different; and so are the men and women who are called upon to solve them. But the latter difference is by far the more elusive. Obvious enough in the changes of tone and temper within the narrow circle of what we call the *intelligentsia*, it is no less real, though far harder to lay hold of and to define, among the mass of ordinary men and women. The *intelligentsia* that poured itself into politics—because politics came and violently invaded its life—during the eventful second decade of this century has now for the most part fled away to more congenial concerns, and made itself, where it has felt the need, a philosophy to cover and justify its political indifference. It professes to find its values in candour, intellectual honesty, and individual happiness; and it seeks these rather in personal and private relationships than in the dusty world of public affairs. It professes to take nothing for granted, lest it be caught out in living on borrowed principles—on cant, as it would say. It finds the world of politics to be full of cant, and therefore it seeks to put this world behind it. Whatever may be happening to society as a whole, it is a man's business to make the most of life. So youth stretches out after the values it can realise most easily. Pleasures it can find, of many sorts—pleasures of warmth, and light, and colour, pleasures of the body and—no less intense—of aesthetic and intellectual appreciation, pleasures of the individual in himself, and pleasures of one individual in another. These pleasures our young intellectuals seek; and they hope that the sum of these will add up to happiness.

But the 'intellectuals', it may be urged, are not typical; and the great mass of ordinary men and women are much the same to-day as they used to be. Are they the same? Have not large masses of ordinary people, too, turned away disillusioned from the pursuit of collective goods, and found refuge in a way of living that shuts out the social problem? I do not mean merely that

they are claiming more intensely the right to a good time, and discounting future goods more heavily in relation to the present. That they are doing this is true enough, and amply justifiable. But my point is that in their pursuit of a good time there is now and increasingly an element of conscious evasion of social realities.

I am not suggesting that before the War the great mass of men were politically minded, whereas now they are not. Of course, they never were. But before the War even an intelligent man could profess a lack of interest in politics without any conscious evasion of a clear social function. Society, he might have said, was rubbing along well enough without him: there was no need for him to be concerned. Nowadays no intelligent person can hold that view; and therefore to-day lack of political interest involves flight—for intelligent persons conscious flight—from the world of realities.

Of course, there is to-day a large section of the people for whom this conscious flight is impossible. In the mining areas of South Wales, Durham, and Lanarkshire, in the shipyard towns, and in the cotton districts of Lancashire, attention is forcibly attracted to political affairs. Nor can the inhabitants of these areas fly from politics to the pursuit of personal pleasure. They have enough to do to keep body and soul together. Among them, bread-and-butter politics is a power. But half-starved men and women, living under conditions of desperate drabness and depression, can hardly be expected to think clearly. They are torn between anger and despair—both enemies to thought. They may be politically minded; but their politics are not creative.

Moreover, few of us really like a sick man; and those sections of the population which are more fortunate than the miners, the shipbuilders, and the spinners and weavers of American cotton, do not enjoy thinking about the sufferings of these new bottom-dogs of industrialism. The human mind is skilled at thrusting away unpleasant thoughts; and the fact that most of the more obvious aspects of the economic situation are unpleasant makes most people reluctant to think about them more than they must. The very urgency and seriousness of the problem cause us to evade it if we can. And so, among those sections even of the working class which have escaped the worse features of the depression, there is a good deal of seeming callousness to the suffer-

ings of their fellows. Among the middle and upper classes, of course, this callousness is far worse.

Yet it is not easy to find satisfaction in the pursuit of purely personal pleasures if behind them there is a conscious evasion of realities. The young *intelligentsia*, I think, is not quite at ease in its chosen existence. It finds happiness elusive; for in its mind are both a consciousness of the poverty and unhappiness around them and the sense of a disquieting insecurity. The foundations of its *palais de danse* are unsure. Civilisation may not crash, but it trembles; and men need, in the quest of happiness, an assured social background. While a pleasure lasts, it may be strong enough to blot out the uneasiness; but, between the pleasures, the uneasiness will recur. And for others besides the *intelligentsia* the contrast, while it may be felt less consciously, still exists.

Pleasure is a good—the greatest save happiness—and men are right to seek those things in which they find it. The politician had better make up his mind at once to that fact. His business is to make the world safe not for democracy or any other high-sounding principle, but for the everyday pleasures and the common happiness of ordinary folk. It is for this that he seeks to make the world's foundations sure; for if men are not to find happiness in the world, what does it matter if the world goes crashing down in ruin? He must call men to help him, not in the performance of an unpleasant duty of social service, but in a co-operative effort to secure the foundations of human happiness.

Nor must he ask too much. Some of us, who find a large part of our happiness in congenial work, have been too ready to assume that all the world's work can be made as pleasant and satisfying as our own. We have built Utopias on the assumption that all the irksomeness of this work arises from defects of social organisation, and that in a world rightly organised each man will find pleasure and some measure of self-realisation in the work which he does on the common behalf. What is more—we have sometimes felt rather proud of ourselves for asserting this, on the ground that our ideal was a higher ideal of pleasure in service than our critics could appreciate. That has been our particular form of cant, and it had for a time a great appeal. But the modern world has seen through it.

Yet what we asserted then had in it something of valuable truth mixed with its impossibilism. It is true that the work men

have to do, and the conditions under which they do it, are most potent factors in making or marring their chances of happiness. And it is among the heaviest charges against modern industrialism that it proceeds on its way almost regardless of this vital fact. Most wage-labour is almost beyond belief irksome to those who have to perform it; and its irksomeness is greatly increased because the mass of men have in their work no sense of valuable achievement. They are conscious of no community of purpose with those who direct their labours; and this lack of fellowship greatly intensifies the unpleasantness and dullness of the work itself. Here are twin evils of which the reformer must take full cognisance. As an architect of human pleasure and a house-breaker of human pain he must seek both to make the toil of factory-worker and clerk less irksome in itself, and to lighten the load of it by endowing it with a clearer and more successful social purpose. In other words, men will rightly work far better if their task is made as light as possible, and if they are clearly conscious that it is worth performing. This was the truth behind Guild Socialism—the valuable truth which has outlived its cant.

But if the preachers of any social gospel suggested that the great mass of men would ever work with their whole hearts and minds merely for the joy of labour, or merely for the motive of social service, they were talking through their hats. Under a happier social system, more men than now may find happiness in work worth the doing; but for the majority the daily labour of field and factory will remain primarily an obligation—which it must be the task of statecraft and science alike to lighten and diminish. We may reasonably hope for a social order in which most men will do their fair share of the world's work without more than the allowed modicum of grumbling, and without serious physical or mental discomfort; but for a world immune wholly from what economists call the 'disutility' of labour it is merely foolish to hope.

In the reorganisation of the world's work, therefore, the statesman has a double task before him. In the first place, he has to lighten labour, both by shortening its duration and by making it less irksome while it lasts; and with this object he has to call science to his aid, and make science the servant of society and no longer of private profit. Science has again and again taught the private employer how to increase the productivity of labour,



often at the cost of driving men harder and making their work more monotonous; but it can and must also teach society, as it is in some degree already teaching the more enlightened employers, how to diminish industrial fatigue, and how to counteract some of those characteristics of the modern labour process that go most against the human grain. Science will not succeed in making all useful labour a pleasant and welcome activity; but, rightly controlled, it can remove from labour a great deal of unnecessary strain and distastefulness. Nor are the two objects of applying science to industry—the increase of the return for effort and the lessening of the disutilities of the effort—by any means so inconsistent as would appear on the surface. There is room for a vast improvement in both fields at once.

The organisation of work is not the only—though it is perhaps the most important—sphere in which the promotion of human happiness is the supreme test of success or failure. The same criterion applies everywhere: all social arrangements need to be designed with a view to the promotion of human happiness. And this means, not happiness as it appears to the statesman, but happiness as it is actually conceived by the ordinary people who make up the bulk of society. It follows that the statesman must not impose his ideals upon them, or seek to compel them to live on his terms. He may hold a strenuous idea of the duties of citizenship, and find his own happiness largely in the exercise of his civic functions. It is none the less his business to avoid being priggish about his own tastes, or intent to force people who are interested in something else to take a continuous and active part in politics. He may indeed at a period of crisis summon all hands to the pump, and expect them, on good reason shown, to answer the call; but he will be building on sand if he expects them to be continuously alert in political affairs, or makes a social structure which depends for its successful working on their sustained and active attention. It is the great strength of Conservatism, and the secret of its continuous hold on many of its followers, that it has never made the mistake of supposing man to be continuously an active political animal.

The practical upshot of this view is that any healthy society in the future, like all the social forms that have preceded it, must be largely self-acting. It must be based itself, as it must base its methods of production, on the principle of the economy of effort.

It must not, in the name of democracy, multiply unnecessarily committees and representative bodies, or consider that a job is being done the better because a lot of people are engaged in doing what one man could do by himself. It must conserve its committees and assemblies for tasks that really cannot be done by individuals, and throw a great deal of responsibility upon individuals for doing the things they can do. It must not ask its citizens to make the affairs of society the chief preoccupation of their lives; for one of the most powerful arguments for Socialism is that, by arranging the forces of society in a more reasonable fashion, it will emancipate us from the need of bothering so much about them, and give us the chance of doing the sort of things that really interest us. Some men, under any system, will continue to find their master interest in social affairs; and this is fortunate, because plenty of men and women with this bent will always be needed. But many of us will welcome the successful establishment of a Socialist system mainly because it will at last put these highly uninteresting affairs in their proper place.

Intelligent people have, however, to realise that we are by no means out of the wood yet, and that they cannot claim the fruits of victory until they have earned them. No one need ask them, unless they have a natural bent that way, to become zealots in the cause of Socialism, or to leave their other interests for its sake. It would, for one thing, be futile to ask them to do this; and, for another, it is not necessary. All they can or need be asked to do is to give a reasonable amount of attention to political affairs, and a reasonable amount of backing, especially at times of emergency, to those who are endeavouring to get them straightened out. In return, they are entitled to ask the politician, instead of working for a heaven of his own which would be hell to them, to aim at a world which will, on the whole, give reasonable satisfaction to most ordinary people. There is a great deal to be said for 'the greatest happiness of the greatest number' as the supreme maxim for political conduct.

Happiness has, of course, a long history, both as a political principle and as a guide to individual living. To go back no further, Bentham and his utilitarian disciples proclaimed it as the guiding principle alike for the individual and for society. Whatever its metaphysical limitations, it is in both spheres practically sound. It is sound for the individual as a guide

to the conduct of the normal affairs of life, and it is sound for society as a practical maxim of political behaviour, because society consists of individuals, and can prosper only in their well-being. Moreover, the individual and social implications of the quest for happiness are inseparably bound up together. To seek either without the other is to court failure. Happiness pursued as a political principle alone—Bentham's 'greatest happiness of the greatest number'—guarantees the individual nothing: it is in danger of being merely altruism camouflaged under an egoistic name; for the happiness of others runs the risk of being the happiness of none. And happiness pursued merely for oneself defeats its own end; for the pursuit of it allows the social foundations on which it rests to be undermined. There is no honesty in the life that shuts its eyes to the collective needs of society. Man is naturally, though he is not wholly or continuously, a political animal.

That so many intelligent people are seeking to-day to evade their political obligations and to find satisfaction in purely personal concerns is largely the fault of the politically minded. Men come to politics with generous impulses—many thousands of them came in such a mood just after the War—hoping to find in political activity the realisation of a natural desire to play fair with their fellow-men. They wanted to feel that they were pulling their weight in a real attempt to set the world to rights after the terrible mess that had been made of its affairs. But politics—even Socialist politics—failed to hold many of these converts. Their impulse lost its first vitality; and the chance had not been taken of translating it into a sure and well-grounded political faith. They were offered programmes; but did even the creators of these programmes whole-heartedly believe in them as practical plans of action? The doubt began whether politicians of all parties were not more afraid of the complexity of their task than eager to take on the man's work of straightening out the tangle of the world's affairs. And, once raised, the doubt was not easy to put to sleep. Many of the new recruits dropped away, not because they were converted to other political faiths, but because they ceased to believe that, in the world of politics, anything of importance was really being prepared. The task seemed too big for the men who were called upon to attempt it.

Yet there are but two indispensable conditions for the under-

taking of the task—realism and honesty. The men and women who are to undertake it will have to be both ready to face facts, and eager to find them out and accept them even if they are both inconvenient and unpalatable. They will need to be prepared, not only to look at the world and at their fellow-men, and to see them as they really are, but also to empty their minds of preconceived notions of what they ought to become. Idealists in a sense they must be, if they are to achieve anything at all. But they will need to recognise that their ideals must be remade in the light of the new facts of the post-war world. For the ideal society that matters is not the Utopia of our dreams, but the best sort of society we can hope to help build out of the materials that lie ready to our hands.

A body of men and women thinking along these lines, and determined to be really honest with themselves, with one another, and with the world, could breathe new vigour and appeal into the world of politics. They would need no superhuman intellectual capacity—only to keep their eyes open to real things, and to be ready to scrap every presupposition that will not stand the test of clear contact with present realities. The men and women to form such a body are plainly not lacking; but they are not at present pulling together. Either they are not putting their minds to the problem, or they are thinking in isolation, and their thoughts are going to waste. In their coming together lies the hope, not only for Great Britain, but also, as Great Britain still counts for much in the world, in large measure for the world as well. If this book should help ever so little to create such a body of thought, it will have been well worth writing, even should every positive proposal that it contains be rejected on closer analysis of the problem. It is put forward, not as a final and considered solution, but as a contribution that has suffered from the isolation of its author, and in the belief that this isolation must be broken down if good thinking is to be done, or a practical way for society to control its own destiny to be thought out and applied.

## CHAPTER II

### BRITISH TRADE AND THE FUTURE <sup>1</sup>

Free Trade and the international division of labour—The growth of world Protectionism—The export of British capital and its effects—Great Britain loses her monopoly—The 'balance of trade' before the War—British exports before and after the War—The post-war 'trade balance'—Can Great Britain afford to specialise as much as before the War?—Or must we redistribute capital and labour?—Our trade in coal and cotton goods considered—We must expect a permanent decline in the export of cheap cottons—The coal problem turns on an increased home consumption—Oil from coal—Increased efficiency may involve displacement of labour—We must rely on exports less than in the past—This involves the development of the home market—And the revival of agriculture—The problem of trade with the Empire considered—'Europeans' *versus* 'Imperialists'—The policy of the 'City'—Impossibilities of Imperial self-sufficiency—Economic Imperialism and the export of capital—Migration dependent on capital supply—The 'trade cycle' considered—Does it really exist?—The alleged rise of new industries and shifting of industries to the South—Unemployment a proof of our political futility.

IN the course of the nineteenth century Great Britain definitely built up her economic system on the basis of the international division of labour. The theory of Free Trade, as taught by the orthodox economists, was an incitement to each country to find out those forms of production in which its comparative advantage was greatest, and, concentrating upon these, to exchange its surplus for the necessary products which it was uneconomic to produce at home. The repeal of the Corn Laws in 1846 is universally recognised as marking the definitive adoption of this policy, and the subsequent transition to a practically complete system of free trade followed inevitably upon it.

For a time, despite isolated voices, such as List's, raised in protest against the cosmopolitan assumptions of orthodox politi-

<sup>1</sup> For statistics and comments illustrating the argument of this chapter see Appendix I., at p. 437.

cal economy, it seemed as if Free Trade was likely to conquer Europe. The Cobden Treaty with France in 1860 was the culminating point in the permeation of European economic policy by British ideas. The triumphant progress of Great Britain on the basis of free trade seemed to justify the contentions of the economists. The international division of labour seemed to most men who reflected on economic affairs the sure road to world wealth and well-being.

Then came a reaction; and slowly the world—Great Britain and Holland apart—slid back into a protectionist attitude. France reacted towards a tariff policy: the United States and Germany began the building of tariff walls which grew higher each successive decade. The British Dominions began to foster home manufactures by the restriction of imports. Those parts of the world which British economists had cast for the part of supplying the developed industrial nations with foodstuffs and raw materials in exchange for their finished products began to rebel, and to claim a right to share in the wealth which they saw accruing to others as the reward of manufacturing specialisation. An epoch of acute international competition began, and spread rapidly as new nations, aided by the exported capital of the developed countries, set up for themselves as industrialists and sought, first to supply their own home markets with manufactured goods, and then to enter as exporters into the world market.

It is easy in retrospect to see how strong a motive Great Britain had, in the nineteenth century, for preaching to the foreigner the virtues of the international division of labour. For, in the circumstances of the early nineteenth century, the practical meaning of the doctrine was that Great Britain first picked the industries that suited her best, and then bade the less fortunate foreigners take their choice of what was left. First in the field with the new technique of production, the British manufacturing interest was in an overwhelmingly favourable position. The British capitalist's absolute advantage in costs of production was so great over so wide a field that he was able to choose among a variety of trades those in which his comparative superiority was greatest, whereas the foreigner could as a rule only pick those in which his disadvantage was least. Great Britain was able to exchange her exports with foreign countries on exceptionally

favourable terms—to sell her own goods dear, in comparison with her real costs of producing them, and to buy foreign commodities cheap. The result was not only a great accumulation of wealth in the hands of the traders and employers, who used it at first so as to increase the advantage still further, but also a rise in the standard of life of the British worker which placed him well above the standards of continental Europe.

It is hardly surprising that, in time, foreign countries revolted against the position of permanent inferiority to which economic orthodoxy—one of Great Britain's principal exports in the middle of the nineteenth century—seemed to condemn them; that tariff walls began to rise and vigorous attempts were made to naturalise in foreign countries industrialism on the British model, or that schools of economists arose denouncing the canny, pro-British, false cosmopolitanism of Adam Smith and his successors and proclaiming the need for nationalist views in economic as well as in political affairs. List, almost ignored in the eighteen-forties, became the ancestor of new schools of economists; and English economics came to be widely regarded as a highly developed form of the characteristic English hypocrisy.

Meanwhile, Great Britain herself contributed to the rise of the new spirit. The profits of the new manufacture had made her the great world reservoir of capital, and the owners of this capital came more and more to see profitable opportunities for its use in developing the latent economic resources of foreign countries. This was, indeed, in some degree an indispensable condition of the continued development of British wealth. In order to feed a rapidly growing population specialised to the work of manufacturing production, it was necessary to bring from abroad ever-increasing quantities of foodstuffs and raw materials. The supply of these could not be increased unless railways were built, and capital provided for the development of new areas as producers. In particular, the opening up of the hinterland of America was the logical sequel to the repeal of the Corn Laws and the decision of Great Britain to rely on imports for the means of life. Moreover, the growing productive capacity of British industry demanded a corresponding expansion of the world market for manufactured goods; and this could not be secured unless Great Britain was prepared to lend to other countries the means of in-

creasing their own productive power, and therewith their ability to afford a larger value of imported commodities.

Seventeenth-century mercantilists, facing a similar problem in the expansion of the British dependencies in America, had endeavoured deliberately to restrict colonial economic development to forms of production which would supplement, and not compete with, British home industries. Nineteenth-century Britain could not attempt this; for in the main the countries which it was easiest to develop as markets and sources of a more abundant supply of foodstuffs and materials were not British territory, or, if they were, would not have tolerated such control of their economic development. Nor did British statesmen and economists any longer desire to play the mercantilist. When they preached to the world the virtues of universal free trade, they were not conscious hypocrites trying to bamboozle the foreigner into damaging himself for the benefit of Great Britain. They were under the spell of their own doctrine, and believed that the best course for everybody was to leave the course of commerce and industrial development wholly uncontrolled. A preordained harmony of natural economic laws, which men would only mar by attempts at interference, formed a cardinal part of their creed. And a 'free trade in capital', that is, the right of the owner of capital to invest it where he pleased, at home or abroad, in pursuit of the maximum profit, seemed to them axiomatic.

The use of British capital to promote foreign economic development could not, however, be confined to the purposes for which it was valued. For as other countries developed, they grew wills of their own, and set out to foster forms of economic life which competed with the British monopoly as well as forms which were complementary to it. Moreover, the British investor, adjured to seek the maximum profit as a sacred economic duty, and left without other guidance as to the direction of his investment, in practice put his money just as readily into competitive as into complementary forms of industrial development. Thus the British investor joined hands with the foreign capitalist to bring about the ending of the British monopoly; and, as other countries rose in the scale of manufacturing efficiency, in one branch after another Great Britain's absolute advantage, discounted already to some extent by the higher wages level reached in this country, tended to disappear.



For the position of absolute advantage which this country enjoyed in the Victorian era was not, as we can now see easily enough, due to factors which were by their nature permanent. The close contiguity of coal and iron deposits and their nearness to the sea helped us enormously in the period of the Industrial Revolution, and still help us to-day. But, under modern technical conditions, it is sufficiently evident that we have, to put it mildly, no assured absolute advantage over either Germany or America in the production of iron and steel. Our geographical and geological conditions have been indispensable to our prosperity; but no lasting preferential position in world trade can be based on these alone. Our being first in the field, owing to our pioneer position in technical invention, and the putting of Europe out of the race for a generation by the Napoleonic Wars, gave us the chance to reap the golden harvest of Victorian capitalism.

It is, of course, true that the natural advantages of our coal-fields and geographical situation, reinforced by the economic paralysis of Europe, gave us an acquired advantage as well. As Great Britain practised the technique of the new industrialism, she became expert. Employers learnt how to organise the processes of production, traders how to send the goods to market in the best way; and a specialised banking and credit system was developed. Workers became highly skilled at the new machine processes, and handed on the knowledge of their crafts. Whole towns and districts were turned into delicate machines for the production and marketing of the commodities on which the growing prosperity of the country rested. All this specialisation helped efficiency, and tended to perpetuate the advantages which had first set Great Britain on the road to commercial supremacy.

Even these things, however, could not avail for ever. As the nineteenth century advanced, the technical evolution of industry, so far from slowing down, grew in pace. The industrial machine needed, always and everywhere, constant adaptation in the light of new knowledge and opportunities. Often it happened that the factory started abroad, profiting by a long series of earlier British experiments, was able to embark on its career with the most up-to-date technical equipment, while British producers, having sunk their capital in now obsolescent processes, endeavoured to carry on without scrapping the productive assets on which they

had relied. This occurred, for example, when the metal industries first developed on a large scale in both Germany and the United States. When the modern methods of steel-making were first introduced, Great Britain possessed a great iron industry in which much capital had been invested. As steel replaced iron in one sphere after another, it became necessary to refashion the industry from top to bottom, and to scrap a great deal of equipment as obsolete. This process was successfully carried through in the latter part of the nineteenth century, and Great Britain successfully placed the new steels on the world market, both directly and in the finished engineering goods into which they were worked up. But under the new conditions there were rival producers as well equipped as her own. Prosperity was restored; but the old monopoly was gone past recall.

This did not mean, as some men feared during the depressions of the eighteen-eighties, that British industrialism was played out. It was fully consistent, as the following decade showed, with a great increase of prosperity for the time. For, though the British producer had more and more to share the world market with rivals abroad, the total capacity of that market increased so fast as to give him more profits than ever. The free traders, who had encountered growing criticism during the years of depression, were reaffirming their old doctrines more confidently than ever in the years immediately preceding the Great War; and they could point to a rapid increase in trade and production during the first dozen years of the present century. Their doctrines, indeed, changed somewhat in emphasis; for now they were concerned to point out that Germany was among our best customers, and to draw the conclusion that even the development of competing manufacturers abroad might lead to an increase in the demand for British goods. The faster the world's wealth grew, they urged, the richer our trade would make us. Germany and America were less important as rivals than as expanding markets for British products.

This was true, up to a point, though it was highly significant that, in relation to Germany, Great Britain was becoming an important exporter of raw materials as well as finished goods. We filled up with coal the deficiency in our 'trade balance' with Germany, while in the case of the United States it was met partly by shipping and financial services, partly by interest on

old exported capital, and partly by exports from other countries which owed a balance to Great Britain.

This balance owing from abroad, as the return on past investments of British capital, was indeed a factor of growing importance in Great Britain's economic situation. It meant that, in any year, our trade would balance even if, after all 'invisible exports'—shipping and financial services and the rest—had been taken into account, the value of our imports substantially exceeded that of our exports. We could afford a large 'unfavourable balance' on the year's trade. Moreover, we were still, in the years before the War, continuing to export capital at an increasing rate. The volume of our foreign investments was growing, and there was no sign in the trade returns of any tendency to shrinkage in the exports of British goods. Tariff reformers might argue that the foreign trade of Germany was increasing at a faster rate than ours: the free trader retaliated with solid evidence that British overseas trade was still quite satisfactory in amount. An increase of sixpence on sixpence amounts to a hundred per cent, whereas a shilling on the pound is but five per cent. But anyone would sooner have a shilling than sixpence; and the free trader, in the eyes of most practical people, had the better of the argument.

How have the War and its aftermath affected this situation? It is now the free trader's turn to comfort himself with percentages. Of a shrunken total of world trade, he seeks to show, we hold to-day as large a proportion as we held of the total world trade before the War. Proportions, however, are but cold comforters; and the fact remains that our export trade is sadly shrunken, whatever method of measuring it we may choose to adopt. The value of our exports has not risen in proportion to the rise in the general level of prices; their volume, as far as can be ascertained, has substantially fallen. And, if we consider the situation rather trade by trade than in general terms, it will be found in too many cases that where the price has been maintained the volume has fallen heavily, and where the volume has been maintained this has been achieved only as the result of a heavy fall in price.<sup>1</sup>

In the composition of the British export trade before the War,

<sup>1</sup> For figures illustrating this point, and the argument of this chapter as a whole, see Appendix I.

two groups of industries were of paramount importance. The heavy industries—coal, iron and steel, shipbuilding, and general engineering—had risen to a position of influence which placed them beside the older textile trades on which Great Britain's position in the markets of the world was originally built up. Both these groups have shared in the post-war depression. In the cotton trade, still the most important exporting industry of Great Britain, the volume of our sales abroad has so declined, without the compensation of high prices for the diminished quantity, that a large part of the industry is on the verge of bankruptcy. Coal exports and exports of iron and steel have been maintained even at their present unsatisfactory level only by a policy of price-cutting which has reduced wages below the level of reasonable subsistence, and even so leaves a large part of these industries in serious financial difficulties. Shipbuilding has passed through a prolonged slump which has reduced the Clyde and the Tyne to the verge of destitution. The woollen manufacture and the lesser textile trades, apart from the new competitive industry of artificial silk, are all facing serious financial troubles. Of engineering it is more difficult to speak, because the name embraces a wide variety of different manufactures, from the prosperous motor trade to the almost derelict industry of agricultural engineering; but, if the group is taken as a whole, the condition of many of the leading firms gives grave cause for anxiety not only to their shareholders but also to those who look to them perforce for employment.

It is true that, despite this almost universal depression in our great exporting industries, the Board of Trade is still able to report each year a trade balance<sup>1</sup> on the right side, and a continued exportation of British capital overseas. But it is scant consolation to be reassured that we are not on the verge of national bankruptcy when we read the figures of unemployment or visit the devastated areas of South Wales or Durham or the West of Scotland. A trade balance on the right side is of infinitely less importance than a volume of trade which suffices to keep our industries going and our people employed. A man may starve in a garret though he owes no man anything and no creditor could find reason to place him in the Bankruptcy Court.

<sup>1</sup> *I.e.* after taking 'invisible exports' into account. See the figures given in Appendix I.

The question we have seriously to consider is not whether our trade balance is favourable or unfavourable but whether, in the changed economic situation of the world, the specialisation to which we resorted, as the source of maximum profit, a century ago, can still be successfully maintained. Can we regard the present slump, protracted as it has been, as essentially temporary, and look forward to a revival as soon as the world, and especially the European nations, settle down again seriously to the work of creating wealth? Or must we recognise that the circumstances which led us to the extreme specialisation now characteristic of our industrial system were essentially transient, and make up our minds to carry through a drastic redistribution of our national productive power in the light of the changing conditions?

These questions are not easy to answer. We have gone so far in specialisation that it is bound to be very hard for us to retrace our steps, if we decide that this is the right course. Material resources, business ability, manual skill—even our social arrangements—have been organised in the light of this specialisation, and any change is bound to involve a huge scrapping of past capital values, a disuse of much hardly acquired capacity, a difficult readjustment of all manner of social relations, probably a big redistribution of population. If we are to work less coal mines, not only the abandoned mines themselves, but the pit villages at their heads, will be left derelict. The workmen will have to be trained for new jobs, and perhaps moved to other districts. The system of local taxation will be upset—indeed the new Rating Scheme of 1928 is a sign that it has been upset already. This will react on national taxation—indeed, there will be from the changed condition of this one industry reactions in every sphere of the national life. And the destroyed resources in the decaying trades will have to be made good by the provision of alternative resources for the development of new forms of production, designed to play their part in a new balancing of the economic system adapted to the changed conditions.

Difficult as this redistribution may be, and hard as we may find it to write off as lost so large a proportion of our national invested capital of material and human resources, we must attempt it if there are sound reasons for believing that the present slump in our export trades is more than a passing malady, or

than we can cope with by bringing them through internal reorganisation to a condition of higher efficiency. The entire economic policy of Great Britain during the coming decade turns on answering aright the question whether we have, or have not, to face the necessity of a drastic redistribution of the material and human forces at our disposal for the purposes of production. Hitherto, whatever doubts may have been expressed, the positive policy of successive British Governments and of the main body of business men has been based on the assumption that no such redistribution need be attempted. There has been some emphasis on the need for improvements in our productive and marketing efficiency as means to the recovery and development of our export trade; and there has been great stress on the need for reducing costs of production—by which employers usually mean the cutting down of wages. There has been, until quite recently the desperate plight of certain of the coalfields positively compelled some facing of realities, practically no disposition to accept the view that a great many industrial plants are derelict for ever, and a great many workers will never find re-employment at their old jobs. The Report of the Industrial Transference Board has now at last accorded official recognition to this highly unpalatable fact; but there is still no sign of any policy based upon that recognition, unless the latest plans of the Government for helping industry through de-rating are in effect an attempt by subsidising the depressed trades to restore at the taxpayers' expense the old balance, instead of seeking to establish a new one adjusted to present realities.

Whatever Governments and business men may say or do, the old balance is gone past recall. This is not due to any one cause, but to the simultaneous operation of a number of different causes, whose immediate effects have been intensified by the dislocation of markets, and the uneven stimulation of different industries here and abroad, which are the legacy of the World War. General reasons can be advanced for the upsetting of the highly artificial economy of international commerce on which the pre-war prosperity of Great Britain was based. These reasons have some force, and can readily be developed by doctrinaires into a plausible illustration of the 'inherent contradictions of capitalism'. But, immediately, the particular causes are more important than the general; and we shall get most light on our present perplexi-

ties not by philosophising about these 'inherent contradictions', but by asking ourselves how and why each of the great industries on which we have hitherto relied has fallen into its present troubles.

At this point no complete examination of these questions is necessary. We need only take certain outstanding examples, and the most instructive are those of cotton and coal. Why has the volume of our exports of cotton goods fallen so greatly since pre-war days, and why has it still a falling tendency despite growingly desperate attempts at price-cutting by businesses threatened with imminent ruin? It is quite pertinent to observe that the cotton trade is itself greatly to blame for the intensity of its troubles; that the speculative fever of the post-war boom left the industry exhausted, stripped of a large part of its working capital, and burdened with a dead weight of loan charges and other overheads that it could hardly have borne even if the artificial prosperity of 1919 and 1920 had continued unchecked. This is true enough; and it is an unanswerable indictment of Lancashire capitalism that it allowed the ramp to occur. But it is not the explanation of Lancashire's present difficulties. It is a potent aggravation of them; but it is not the root cause. If it were, we might reasonably hope that a drastic process of liquidation would restore the entire industry to health, and set all the redundant operatives again at work at reasonable rates of wages. But, in fact, even those who set the greatest store upon persuading Lancashire to carry through the necessary process of wiping off inflated capital values, liquidating impossible loan charges, and reorganising the industry on sounder productive and commercial principles, are well aware that these steps will not remove the difficulty, but only help the cotton industry to face it with a better hope of saving what can be saved.

The plain fact is that the world demand for Lancashire cotton goods is not now, and is not likely to be again, what it used to be. There is, indeed, one important section of the Lancashire cotton industry which, well organised and under sagacious leadership, avoided the disaster of post-war speculation and has remained throughout in a thoroughly healthy and satisfactory condition. This is the section which is engaged in the spinning and manufacture of fine cotton goods. This exception, however, only helps to confirm the view just expressed; for fine cottons have remained

hitherto practically immune from the impact of the forces which are threatening the producers of coarse and medium yarns and of the cheaper types of piece-goods. The rise of a native cotton industry in India, China, and Japan; the rapid development of the cotton manufacture in the Southern States of America and in certain European countries; the undercutting of the Lancashire producer by this competition, first during the War, when he was unable to supply save in limited quantity and at an abnormally high price, and latterly, despite his belated attempts to bring down prices in order to regain his lost markets—these are the real problems which Lancashire will have still to face, even when she has performed successfully the unpalatable task of cutting her losses and squeezing the water out of her inflated overhead expenses. And these factors mean that never, in all human probability, will Lancashire get back her old trade on the old lines.

It is, of course, possible that in time the world demand for fine cotton goods—in which Lancashire still retains her pre-eminence—will so expand as to enable a substantial transference of capital and man-power from the decaying sections of the industry to this more favourable field. There has been already a fairly large shifting over—involving expensive adaptation of plant and methods—from the one to the other. But any such transference is bound to be slow, and cannot solve Lancashire's immediate problem, however it may alleviate it here and there, or however important it may prove to be in the long run. It is, in any case, analogous rather to the building up of a new type of production than to the restoration of a lost market. It is none the less well worth pursuing. A rise in the standard of living in China and India might, by creating this new demand for products peculiarly suited to Lancashire's conditions of supply, in time change the whole situation; and a wise British statecraft would accordingly use every effort in its power to raise the standard of life in the Far East instead of aiding and abetting British capitalists who are eager to make profits, and incidentally to help Lancashire's ruin, by exploiting the low standards which now prevail. I shall return to this point in the chapter dealing with problems of foreign and imperial Labour policy.

For the present, however, my point is that it is merely futile to await any automatic restoration of the pre-war prosperity of



the cotton trade. Wise statecraft will do all in its power to increase Lancashire's productive efficiency by better organisation of production and marketing and by the application of new capital with these ends in view; but it will also recognise that no complete return to pre-war normalcy is possible, and that, when every possible measure of internal reorganisation has been carried into effect, there is likely to remain a surplus of workers for whose services some alternative use must be found. This implies a conscious search for the best alternative, and a deliberate policy of pressing forward its adoption.

The second instance to be taken here is that of the coal trade. That the coal industry is exceedingly ill organised, both on its productive side and in its methods of marketing at home and abroad, almost every reasonable person will at once agree. It is therefore necessary, as the Labour Party has throughout insisted, to take its reorganisation firmly in hand. But not even the keenest advocate of public ownership will be disposed to argue that any form of public ownership and administration will avail to get the vast army of unemployed miners back to work. Some of them, perhaps; all of them, by no means. Indeed, it is reasonable to look to public ownership rather for an improvement in the wages, hours, and conditions of those who do find work in the industry, than for any great increase in their number. For its aim will be rather to make labour more effective than to employ as many men as possible in doing a job for which a less number would suffice. If efficiency is improved, more coal will be got and marketed with the same labour, and any improvement in demand will be met in this way, rather than by the employment of more men. It would be as fatal for public enterprise to set out to employ redundant labour in the coal mines for the sake of employing it as to start relief schemes in which the unemployed were made to dig holes one day and fill them up the next.

Unless, therefore, we can look forward to a very great expansion of the demand for British coal, we cannot reasonably act on the assumption that the main body of the miners now out of work will be readily reabsorbed in their old industry. And there are very strong reasons why the demand for British coal should remain, for some time to come, relatively inelastic. In the first place, Great Britain is by no means the only country whose capacity to produce coal at present greatly outruns the effective

demand. The United States, Germany, and many lesser producers are in the same situation; and any expansion of demand would give the signal for fierce competition to get the benefit of the increase. Great Britain would get a share, no doubt, but only a share, and not even, in all probability, the lion's share. Moreover, the factors which have been causing the demand for coal to increase a good deal more slowly than the general production of goods in the industrial countries are still at work. The great increase in the use of oil fuel, helped immensely by the rapid advance of road transport and the improvement of roads and motor vehicles; the coming of the motor-ship and the wider realisation of the advantages of oil-burning tonnage in greater cargo space, smaller crews, and more rapid turn-round at the port; the progress of fuel economy, by which a ton of coal has been made to go a good deal further than of old—these world forces combine with the depression of the chief coal-using industries and services in this country to diminish the relative importance of coal in the modern productive economy. If the coal trade had been better organised, it would doubtless have fared far less disastrously than it has fared in fact; but it could not have escaped the impact of serious external causes of dislocation and reduced demand.

In this case, too, it is therefore useless either to wait idly for the automatic restoration of pre-war normalcy, or to rest content with plans—however necessary and well laid—for the internal reorganisation of the industry. The coal industry is, indeed, marked off from the cotton trade in that it exports directly a far smaller proportion of its total product; but it exports a large part of its product indirectly as well, in the form of iron and steel and engineering products of all sorts, ships, and, in effect, every variety of goods into which coal enters as a contributory material. Its situation is far less easily considered in isolation than that of the cotton trade, and is far less overwhelmingly an export problem; but, however we regard it, the conclusion remains. There is no reasonable prospect of re-employing in the mining industry a large proportion of the miners who are now out of work. The Industrial Transference Board has recently estimated the permanent surplus of labour, in this one industry alone, at two hundred thousand men.

It is true that scientific advance may be able to make a sub-

stantial contribution to arresting the coal industry's decline. If science can teach us to distil oil from coal on a commercial scale and at an economic price, oil fuel may cease to be the competitor of coal and become instead a new means of stimulating the demand for it. We may be able to dispense with our rapidly increasing oil imports, and make our oil at home, thus re-employing miners now out of work, and also creating important new auxiliary industries. It is not fanciful to hope for this; for processes of converting coal into oil are already in operation and not far removed from large-scale commercial practicability; but it would be unwise to count our chickens before they are hatched, or to put too high the assured results of the forthcoming victory of applied science. Certainly we should not be deterred by this possibility from using every possible endeavour to place in alternative useful work every miner who is now unemployed.

I have taken these two industries—cotton and coal—as outstanding instances of the urgent need not only for drastic measures of internal reorganisation, but also for the redistribution of our national economic forces. In each of them, as in many others, a large body of men is at present being allowed to rot away without hope, and accordingly a great deal of potential productive power is being sheerly wasted. The examples could readily be multiplied; but, in this place, these two suffice to drive home the essential point.

Both coal and cotton, moreover, illustrate another inherent tendency of modern industrialism. In both we recognise the necessity of greater efficiency, which means largely making labour more productive by better machinery and organisation. This problem arises in every industry, and in every one, unless the demand for its products is or can be made highly elastic, the increase of efficiency may easily mean an actual reduction in the labour force employed. Under present conditions we may easily find that the increase of our capacity to produce wealth actually creates unemployment and thereby defeats its own object. As we have seen in the case of coal, it is no answer to urge the useless employment of redundant labour. We have to find new and useful outlets for the displaced labour in creating other forms of wealth, and we have so to arrange our social system that there exists an effective demand large enough to exhaust our ability to supply. On no other terms can we make

the best use of our human and material resources, or successfully raise the standard of life. This is the great problem presented to us by the proposals designed to relieve our industrial position by the method of what is nowadays called 'rationalisation'.

At this stage it would be premature to attempt to deal with this problem as a whole. Some aspects of it are discussed in succeeding chapters; here, we are concerned with that special part of it which arises in connection with our export trade. The problem of cotton is mainly a problem of exports; and that of coal, which is also largely one of home demand, is dealt with in this chapter only in its particular aspect as an export problem. In general, in these two and in other industries, the question to be faced is whether Great Britain, even if she can maintain her export trade or even restore it to its pre-war volume and more, can reasonably rely in the future on supporting her people by the exchange of exports for imports *in the same proportion* as in the past. Under the conditions with which we have long been familiar, any increase in the domestic standard of life involves a greatly increased importation of foodstuffs and raw materials, and therefore a greatly increased exportation of British manufactures in payment for them. Can we rely on being able to expand our export trades so as to cover such an increase of imports, or will the attempt to do this either sheerly fail, or so depress the world prices of our exports as to create an impossible economic situation for British manufacturing industry?

Coal and cotton are surely in this connection, if not typical, at any rate highly significant. They bulk so largely among our exports as to overshadow all others save the products of our metal and engineering trades. If the export of them is, as I have suggested, unlikely to expand and not unlikely to decline further, it is difficult to believe that any practicable increases in our exports of other goods will suffice to meet the big increase of imports which under present conditions a rise in the standard of life seems necessarily to involve. If this view is correct, it implies a further deliberate readjustment of our national economy, with a view to a greater production of goods for home consumption rather than for exportation abroad. It implies that we must seek to produce at home more of the goods that are required in order to satisfy the demand for a higher standard of life. No one wants Great Britain to scrap her export trade, or aim at economic

self-sufficiency; but if a not inconsiderable part of her export trade shows signs of scrapping her, it behoves her statesmen to set about the readjustment of the national economy in the light of that prospect. One obvious moral is that we should deliberately attempt to foster a revival of agriculture, especially in those products which we have the best means of producing at home; dairy-farming, pig-breeding, and market-gardening even more than ordinary arable farming seem to be indicated as the most hopeful lines for this advance. But the problem is not one of agricultural production alone, or even mainly. It is also that of designing an expansion of industrial production in the light of the needs of the home consumer. For the project of sending the main body of our unemployed back to the land is obviously chimerical.

At present, in this country, the home market is commonly the last to receive the attention of either economists or statesmen. We have lived so long under the spell of international trade that most of us still find it difficult to think in any other terms. Even now, the remedies proposed for our troubles in capitalist circles are conceived almost wholly in terms of our trade overseas. The main division seems to lie between those who put their faith in the economic restoration of Europe and those who aim at building up the scattered territories of the British Empire into a largely self-contained and closely interdependent economic unit. Lord Melchett, in his recent book, *Industry and Politics*, upholds the latter view with the zeal of a recent Conservative convert, while banking and financial opinion in the City and Liberal opinion in the country are still overwhelmingly in favour of the other policy.

The view which sees in the restoration of Europe the chief hope of Great Britain's return to economic prosperity is essentially conservative in the true sense. It is based on the attempt to bring about as nearly as possible a return to the conditions on which British trading and financial prosperity rested before the War. It has found its clearest expression in the so-called Bankers' Manifesto of 1927 and in the efforts of the International Economic Conference and the League of Nations to achieve the stabilisation of European currencies, the lowering of tariff barriers, and the removal of all forms of customs discrimination, in order to make possible a freer movement of trade across the

new frontiers erected in consequence of the War. It has behind it, consciously for some of its advocates, unconsciously for others, the motive of gradually linking up the greater part of Europe into a single economic system based on the nearest practicable approach to European free trade, and consolidated by means of international cartels and the systematic penetration of international banking and finance. Whether Great Britain should attempt to enter into the making of such a system is a question already much debated among financiers and business men. It has arisen in a very practical form in connection with the invitations to the British steel trade to join the European steel cartel, and it may arise at any time in connection with a proposal for a coal cartel embracing all the important West European coalfields.

British industrialists are at present highly uncertain in their attitude towards schemes of this kind. They do not like the idea, partly because it flatly contradicts the traditional individualism of British trading methods, but still more because it hurts their pride. They are still disposed to regard it as their natural right to have their pick of the world's trade, and to carry their goods where they please and in what quantities suit them best. They fear the effects of accepting a restriction of output controlled by an international syndicate in which they may be overruled by mere foreigners. They are ready enough to preach to these foreigners the virtues of currency stabilisation and a lowering of tariffs; for these things would make the road easier for British trade. But when it comes to a question of the *quid pro quo*, they are by no means so ready to come to terms.

The financiers have, as a rule, no such hesitations. For them, the closer economic union of Europe offers a great opportunity for financial penetration, and for the consolidation, in face of threats from New York, of London's position as the effective centre of the European system of credit and business finance. In any United States of Europe, London would be clearly the financial capital, with increased opportunities for the making of profit by banking, insurance, and other services in the provision and organisation of capital and credit. In comparison, projects for the linking up of the British Empire into an economic unit are, from the financier's standpoint, exceedingly hazardous and unattractive. Give him European finance to play with, and he has nothing to fear. British industry may languish; but the City

of London will continue to pile up wealth. And so important is this wealth of the City in our present national economy, that on the whole Treasury officials and Chancellors of the Exchequer are usually more readily swayed by the City's voice than by the cries of the manufacturing interest. It may be easier for the Chancellor to make up his budget with the City prosperous and industry depressed than if the positions were reversed.

The City, moreover, is usually united in its view, whereas the manufacturers are not. For different manufacturers have different markets, and therefore different interests. For some of them, the coming to terms with Europe is attractive, either because their main markets are on the Continent or because they hope to make with their continental rivals favourable arrangements for the allocation and division of extra-European markets. To others, however, the European market is unimportant, and proposals for allocating world markets among European producers present themselves rather as threats than as inducements. This is especially true of those manufacturers who have already large markets, and hope to have larger, within the Empire; and among these are found many of the most influential and prosperous firms in the engineering, electrical, and chemical industries. The interests of these firms are bound up with Empire development. They want to see British capital flowing overseas, in order, not to set Austria or Germany or Poland on its financial feet, but to stimulate in the British Dominions and Colonies the demand for British manufactured products, and to open up in these same areas sources of necessary materials and foodstuffs. This section of the manufacturing interest ranges itself, more or less conclusively, on the side of those who are working for a tightening of the economic bonds of Empire, with a view to an imperial Zollverein linked together by protective tariffs or analogous arrangements for preference to trade within the Empire—and equally shut off by the same means from the rest of the world.

At present these two policies are pulling each against the other too strongly for either to be whole-heartedly adopted by any capitalist Government. The result is that, on the larger issues of international economic policy, Great Britain appears to have no policy at all. She sends her delegates to the International Economic Conference at Geneva, but sends no one who can be regarded as committing the Government in any way. She flings

a subsidy to the Empire Marketing Board, but is careful to explain that this does not commit her to any special economic arrangements with the Dominions. In fact, British Governments still hover uncertainly, and, in attempting to make the best of both worlds, succeed only in earning the suspicion of both parties.

The question between the advocates of a 'United States of Europe' and a 'British Empire, Ltd.' is one that will be discussed again later in this book. Here my point is that both the views are conceived in terms of overseas trade and not the home market as the main determinant of economic policy. Both take for granted the continuance of the extreme specialisation of British industrialism on production for export. It is true that, whereas the 'Europeans' have in mind the nearest possible return to the old forms of specialisation, the 'Imperialists' are thinking in terms of a revised specialisation adapted to the particular needs of markets within the Empire. This, however, does not alter the fact that both think of the foreign, rather than of the home, consumer. What if both are wrong? What if this extreme specialisation is in fact no longer practicable because neither within the Empire nor outside it can the necessary markets be found? It is the thesis of this chapter that, while Great Britain will continue to drive a great and perhaps an expanding world trade, the development of that trade provides no answer to the problem either of employing the unemployed or of raising the standard of life in this country. There is, indeed, a real and important choice before us in deciding whether we will, in our future external trade, devote greater attention to the Empire or to Europe. But this question, vital in its place, must not be mixed up with the much larger question of the internal reorganisation of our economic resources with a view to the direct satisfaction of an expanding domestic demand.

In 1913 trade with the British Empire amounted to about 28.5 per cent of our total external trade, and exports of British goods to countries within the Empire to 37 per cent of our exports of domestic produce. In 1925 the corresponding percentages were 35 and 43. But these latter percentages were based on a shrunken export total, offset in the former case by the rise of imports. According to the official estimate of the Board of Trade, total exports of British produce, measured in terms of



1924 prices, only amounted in 1924 to 76 per cent of the 1913 total, and in 1928 only to 80 per cent. Even our exports to Empire countries have not increased in real volume, though they form a larger proportion of the decreased total. This latter fact may encourage us to believe that our trade with certain parts of the Empire is, for the present, more stable than our trade with the rest of the world; but it provides no foundation for the hope that we can so expand our exports to countries within the Empire as rapidly to make us relatively independent of other overseas markets.

The aim of the economic imperialists is, of course, to build up by systematic development of imperial resources, accompanied by large-scale emigration from Great Britain to the Dominions and Colonies, a great and largely self-contained economic unit producing its own materials and food-supply, carrying through its own processes of manufacture, and providing its own sufficient market for the consumption of its products and the useful employment of its people. They dwell on the vast undeveloped resources of the Empire, its vast unpeopled spaces, the complementary qualities of its far-flung territories. The Empire is large enough, they say, with proper development to enable Great Britain to continue and intensify her specialisation on the more intricate kinds of manufacturing industry without bothering her head unduly about the rest of the world.

This imperial vision involves very large assumptions. It implies that the self-governing Dominions will willingly participate in such a policy—which may be true of Australasia, but is almost certainly not true of Canada, in view of its proximity to the highly developed economic system of the United States. It implies that the desire of the Dominions and of India to build up competitive industries of their own, and safeguard them by tariff walls, can be, if not denied altogether, at any rate restrained within narrow limits for an indefinite period. It really assumes, if it does not positively imply, *carte-blanche* for Great Britain to manage the economic affairs of those parts of the Empire which are not self-governing purely in her own interest, and to play Old Harry with any native custom or interest that may stand in the way.

Even if these assumptions were granted, the difficulties of the 'Imperialists' would not be at an end. The speed with which

the Dominions and Colonies can develop economically, and the extent to which they can absorb successfully emigrants, even of the right types, from Great Britain are limited essentially by the supply of capital available for their use. The 'Imperialists' set out to foster the investment of British capital within the Empire, and it is to be observed that there has actually been a considerable movement towards such investment since the War. But, as long as the investor is left with a free choice, the process cannot be much hastened; and it is doubtful whether, in view of the prospects now being offered by the more settled conditions that are coming to prevail elsewhere, the Empire will even keep its present relative attraction for the British investor. Of course, the movement of capital could be controlled or influenced, as it was influenced a generation ago by the grant to Dominion stocks of the status of trustee securities. But it would be difficult for any capitalist interest to move far along this road; and in any case it is by no means clear that Great Britain, in face of other necessary commitments, can afford to speed up the pace of investment within the Empire. Hasty withdrawal from other spheres might easily result in a loss of trade greater than could be secured for a long time from the new field; and, what is most important, there is need for a much larger investment of capital at home, in order to refashion our industrial system on modern lines, and to provide useful work rather than doles for the unemployed. Let us by all means seize good opportunities, when they offer, for investment within the Empire and for imperial migration; but let us not starve our home industries in pursuit of a policy of imperial economic unity whose results are certain in nothing save that they must be long deferred. No conceivable expansion of imperial trade or migration will make more than a small contribution to the solving of our unemployment problem during the next ten years. There is far better prospect of employing most of our unemployed at home than of planting them successfully overseas.

It has been made, I hope, quite clear that I am not attacking either plans to develop trade within the Empire or plans for settlement of unemployed workers in the Dominions. Both are good in their place; what is amiss is the advocacy of them as sufficient remedies for trade depression and unemployment. They are not alternative, but complementary, to plans for the

development of home resources and the provision of employment at home; and they must not be allowed to stand in the way of these more important objects.

The 'Imperialists' have at least the merit that they are conscious of a problem, and trying to suggest some solution of it. Their attitude is therefore infinitely to be preferred to that of the commoner types of politician and business man, who are merely waiting for something to turn up. In particular, it is difficult not to lose one's temper with those economists, professional and amateur, who appear to think they have got to the root of all our troubles when they have drawn attention to the phenomenon of the 'trade cycle'. In the past, they tell us, periods of good and bad trade have regularly succeeded one another. Trade is bad now; therefore it is going to be good soon, and why worry? This sort of argument is calculated to drive any rational being to despair of the usefulness of education. It is, of course, true enough that in the past good trade has come after bad, and bad after good. How else could either have come? It is true that, over most of the nineteenth century, the length of the spells of good and bad trade has shown some appearance of approximate uniformity, though the length of different 'trade cycles' has varied a good deal, and the present protracted depression is very difficult to fit into any of the patterns that economists have devised. It is true that there are clearly certain psychological and material causes working within the capitalist system, which tend to cause alternations of over-confidence and over-caution with their inevitable reactions on production in the business world. But it is not proved, or likely to be proved, that the so-called 'trade cycle' moves mainly by any inherent rhythm of its own, that it has any necessary tendency to last a certain number of years, neither more nor less, or that the actual 'cycles' of the past have been mainly due to any common cause or group of causes. For the occurrence of every depression and of every boom in the nineteenth century it is not difficult to find particular causes fully sufficient to account for the effects commonly attributed to the 'trade cycle'; and these causes differ widely from case to case. Banking policy at home and abroad, the production and movement of gold, new discoveries in the technique of transport and production, harvests, wars, and famines have all played their part, with many other causes, in

the making of booms and slumps. The 'trade cycle', as a universal explanation, is mere Mumbo Jumbo.

This particular form of devil-worship is very much in fashion just now because it relieves the faithful of the necessity for action. It engenders an unfounded faith that something will turn up even if we do nothing to bring about the revival of industry, and it leads the economist who has written a whole 'Golden-Bough'-ful of erudite observations about the habits of the tribal deity of the modern business world to feel that, if he has not helped to solve the problem of unemployment, he has nevertheless laid a worthy offering on its shrine. Fortunately, most people are at last beginning to see through this particular piece of academic cobweb; but it has done a good deal of harm in its day by salving the consciences of naturally lazy and unimaginative persons.

Better, but not much better, are the economic observers who spend their time telling us that, despite appearances to the contrary, our situation is really getting better and better and better. There is proceeding apace, they tell us, a silent transference of industry from the North of England to the Midlands and the South. New industries are arising fast to take the places of the old. A manufacturer has started making dolls' eyes at Old Sarum, and another is making a bid for the world market in captive golf balls from a back street in Limehouse. Soon all the coal-miners, all the shipbuilders, all the cotton operatives will be working, as merrily as crickets, at these new trades. Unemployment is lower in the South and Midlands than in the North. Therefore we can be as happy as if there were no one out of work in the South or Midlands at all. These areas are just about managing to absorb the new entrants from school into industry without adding to the numbers of their unemployed. Therefore, if we pour unemployed miners from Durham and Scotland into Birmingham and Bristol we can be sure it is only their own folly if they fail to find jobs.

There are, indeed, certain British industries that have remained, or grown, prosperous amid the surrounding depression. The motor trade, the electrical appliance and electrical engineering trades, the chemical trades, and the new artificial silk manufacture are all flourishing. Their capacity, and that of a few other trades, to absorb labour seems likely to increase; and we can be

thoroughly thankful that this is so—and touch wood as we record the fact and the hope. But no one but an idiot can suggest that these industries, or others like them, are going to make any large contribution to the absorption of the unemployed, or that the development of industry in the South and Midlands shows at present any signs of reaching dimensions which will enable it to drain off the surplus labour of Scotland, the North, and South Wales. The areas of depression are the areas in which our great employing industries are closely concentrated; and no gain in the far less important trades which are now prospering can possibly offset their loss. The attempt to exaggerate the significance of the real changes which are at work to-day in the distribution of productive activity between industries and localities arises from the same source as the worship of the 'trade-cycle'—the desire to evade the responsibility of tackling the problem of unemployment and trade depression with positive measures of economic reconstruction. They are both attempted ways of escape from an overpowering sense of futility.

For no one who tamely accepts the fact of unemployment can help feeling futile. A society that acquiesces in the presence in its midst of a vast permanent army of unemployed is a society that has ceased to believe in itself. The thing is so patently ridiculous. In the heart of a community possessed of limitless wants, and ceaselessly complaining that it cannot afford to satisfy them, the labour of nearly two million able-bodied workers—voluntary drones and idlers apart—is allowed to run lastingly to waste. Not only is the present power of these workers to produce badly needed commodities left unused: the men themselves are allowed to rot away, though everyone knows and admits that physical and moral degeneration are for many the inevitable consequences of prolonged inaction. The unemployed are kept alive with doles; for society must insure itself against the desperation of hordes of starving men, and is touched besides up to a point by a more than half-guilty humanitarian instinct. But more and more, as year follows year, the existence of this running sore of wasted humanity—with all the misery and sense of futility that inevitably afflict it—is taken for granted, and accepted as a thing beyond the power of the politician to do away with—a 'nuisance' that he cannot prevent, though he may do something to lighten—out of the product of others—its hapless lot. No decent man

who is alive to this beastliness can rest content while it is allowed to remain, or stand aside from politics till he has forced the politicians to attend to their job of removing it.

I have suggested in this chapter that there is no way of achieving this by the expansion of our overseas trade, and that the remedy must be sought at home, in the reorganisation of our internal economic life. It is to that problem—to the internal condition of British industrialism and to the means of utilising to the full our power to produce commodities for our own use—that we must now turn our attention.

## CHAPTER III

### THE UNEMPLOYED <sup>1</sup>

Work or maintenance—Why Governments prefer to maintain the unemployed in idleness—False economy of this policy—The need for a totally new approach to the problem of unemployment—Work for all—The proposed National Labour Corps—To be based on voluntary enrolment—A disciplined body—Working at a fixed standard of pay and hours—With additional allowances for dependents—The need for industrial training—Conditions of service in the Corps—Answers to criticism of the scheme—The work of the Corps—Cleaning up England—Slum clearance and housing—Attitude of building employers and workers considered—A retrospect of housing policy—The Labour Corps as an emergency organisation—Will it become permanent?—The problem of women's unemployment—Possible use of the Labour Corps by a reactionary Government considered—The Corps will increase Trade Union bargaining power—Why it is indispensable to get the unemployed back to work.

EVERY politician agrees that it is better to provide work than maintenance; but every Government in office, despite all professions, has hitherto ended by providing maintenance rather than work.<sup>2</sup> For, whatever may be the ultimate cost to the community of leaving the unemployed to decay in idleness, from the standpoint of the Government maintenance comes in the short run a great deal cheaper than employment. This is partly because the scale of maintenance is kept a good deal below the wages that would have to be paid if work were provided, and partly because there are no materials or equipment to be bought,

<sup>1</sup> The statistics relevant to this chapter, with certain comments, will be found in Appendix II., at p. 444.

<sup>2</sup> The Labour Government of 1924 had, of course, no time to set on foot any general plan for the prevention of unemployment. It did, however, even during its brief term of office, pass the Wheatley Housing Act, which greatly stimulated employment in the building trades, and lay down the general lines of the scheme of electrical development that is now being gradually carried into effect.

and no overhead costs beyond those of the Employment Exchanges. But it is far more because, when a Government decides in favour of the policy—or lack of policy—of keeping men alive without work, the National Exchequer does not foot the major part of the bill. The larger share in the cost of unemployment insurance is met out of workmen's and employers' contributions; and the cost of poor relief falls upon local rates. The State has, indeed, been compelled to lend money both to the Unemployment Fund and to the Boards of Guardians in the distressed areas; but the sums so expended are loans and not real charges on the Exchequer. The Chancellor does not have to budget for them as part of the costs of government to be met out of the taxes. The provision of doles rather than employment is therefore apt to present, from the standpoint of a short-sighted Government, an illusory appearance of economy; and plans for the provision of work instead of maintenance are readily rejected on the ground of expense.

It is, I trust, obvious that the 'saving' thus achieved by the Exchequer is not a real economy. For what matters from the standpoint of the community is not how much the Exchequer spends on the unemployed, but how much is spent from all sources, and what value is secured in return. Even if the demoralising effects of prolonged idleness are left out of the reckoning, and account is taken only of the actual cost of maintaining the unemployed, whoever foots the bill, it is evident that the policy of doles does not pay. Its entire cost is a net cost, against which nothing is recovered in the product of useful service. A considerably larger gross expenditure would cost a great deal less if the unemployed were set to useful labour. And useful labour, as everyone is willing to admit, would be a great deal better than enforced idleness for the unemployed themselves.

But to what labour are they to be set? The familiar methods of providing relief work are notoriously unsatisfactory;<sup>1</sup> and the plan of advancing normal public works is of value only in meeting a purely temporary emergency. If the State were to set the unemployed to work at their own trades there would be an evident danger of throwing men now in employment out of work, and employers would at once very naturally complain of unfair

<sup>1</sup> See the Note on Relief Works, which appears at the end of this chapter, at p. 66.



competition. The policy of subsidising depressed industries has been tried once in the case of the coal mines, and is now being tried again in a disguised form through the Government's new de-rating scheme. But the danger of such subsidies is that they merely force down prices without securing a corresponding expansion of demand, and then in the end leave the industries to which they are applied dependent upon them, and less able than ever to stand on their own feet. It is in any case obvious that the policy of subsidies cannot be applied on a scale large enough to produce any considerable effect on the volume of unemployment.

These considerations, and others like them, have hitherto led Governments, even when they have begun by professing the desire to provide work instead of maintenance, before long to despair because of the difficulties surrounding this policy, and to fall back on the very methods of relief which they began by decrying. Lord Melchett's plan of paying the unemployment benefit, subject to certain important safeguards, as a subsidy to the wages of any unemployed man whom an employer would engage on these terms was at one time seriously considered, but was rejected because it appeared to be impossible to distinguish between workers who would have been employed without the subsidy, and workers who would not. Of late, despite increasing unemployment, even the amount of relief work on roads and similar services has been curtailed, and the unemployed have been told more and more plainly that there is nothing to be done for them, and that they must grin and bear it on the dole—when the Ministry of Labour lets them have even that—or on poor relief or private charity when benefit is refused them. At the same time, the administration of the unemployment insurance scheme has been tightened up and made more deterrent, in a spirit reminiscent of the famous Poor Law Commissioners of 1834. Even cartoonists in the Tory press have ceased to represent the workless worker as living in clover on the dole, with no questions asked.

Any Government that begins by considering by which of the methods previously tried it can best provide work for the unemployed will be certain to go the road of its Coalition and Tory predecessors. Along the lines previously tried, the thing simply cannot be done. A fundamentally different approach,

based on a different vision of the problem, is required. A Government that means business will have to begin by making up its mind that it is going to offer the chance of work to every unemployed man, and then, having taken that momentous decision, will have to devise the means of carrying it into effect. And, no matter how formidable the obstacles it encounters, it will have to clear them out of the way. If it once sets out in that spirit, it will find that the obstacles are not nearly so difficult to surmount as they appear from the other side of the Rubicon.

What, then, is the policy proposed? Simply that every unemployed worker, after his name has been registered for a certain period (from two weeks to a month) at the Employment Exchange, should be given the option of enrolment in a national organised body of workers available for any useful form of national service. It might be necessary in certain cases to exclude from the enrolment workers whose unemployment was purely seasonal, or whose skill, likely to find employment again before long in their own trades, would suffer if they were set to other work. But these cases would be relatively few, and the great mass of the unemployed, including all the tradeless men who have been out of regular work for years past, and all the extruded surplus of such industries as mining, shipbuilding, and the textile trades, would be given the opportunity of passing into the proposed new body, which I shall call in this book by the name of the National Labour Corps.

This corps is to be conceived as primarily a great body of civil engineers, with the task of making the country as a whole both a pleasanter place to inhabit, and a more efficient productive concern. Of the work it would be called upon to undertake there will be more to say later; first it seems best to define as clearly as possible its character and form of organisation. It would need to be a disciplined, but in no sense a military body. It would work, that is to say, under orders, as a disciplined force; but the method of enforcing this discipline would be purely civil. The members of the Labour Corps would be all volunteers, who had chosen to work in it in preference to existing on unemployment pay or poor relief. They would thus have subjected themselves voluntarily to its rules and conditions; and it would be indispensable to its efficient working that these should be observed. It is no less indispensable that they should feel them-

selves called upon to give of their best, and that the 'go slow' spirit, which is apt to infect all work felt to be in the nature of task-work exacted in exchange for relief, should be kept from appearing. With this end in view, every man must be left as free to leave the corps, subject to reasonable notice, as he was to join or not to join it in the first instance. And equally those responsible for the conduct of the corps must have the full power, subject to reasonable provision for appeal, of dismissing any member of it who fails to do satisfactory work. A man who left of his own will, or one who was dismissed as unsatisfactory, should be allowed to resume without question whatever rights to unemployment pay or relief he enjoyed at the time of his enrolment. The directors of the corps would thus retain the power of preventing its efficiency and morale from being lowered by the presence of slackers or unemployables; and the unemployed man, on his side, would be subject to no sort of coercion beyond the necessary measure of discipline which he had voluntarily accepted in agreeing to join the corps.

The National Labour Corps, as I conceive it, would resemble, not a military force, but rather such an organised body of workers as built the world's great railways or dug the Panama Canal. It would be working under leaders chosen largely for their competence in the handling of men, and as far as possible having some experience of civil engineering in one or another of its branches. Its members would need to be ready, on occasion, to live under canvas or in temporary huts erected by themselves in the neighbourhood of the work they were to do. They would have to be prepared to turn their hands to many jobs, and to take light-heartedly a certain amount of 'roughing it' under somewhat primitive conditions. They would need, obviously, when they were working under these conditions, to accept the discipline of the camp, not because it would be enforced by any sort of military penalties, but because the penalty for not accepting it would be a return to the far less eligible existence of the unemployed man not under the scheme. Is there any doubt that, if the conditions attached to the scheme were reasonable, the great mass of chronically unemployed workmen would jump at the chance of enrolment in it? Few men really prefer idleness to decent work; and fewer still are so enamoured of idleness as to prefer it to a useful job under reasonably satisfying conditions.

Clearly, one of the most important of these conditions is the pay that the members of the National Labour Corps are to receive. They would be called upon to work, presumably, an eight-hour day—certainly not more than forty-eight hours a week, with the customary weekly half-holiday, or perhaps a five-day week of something less than nine hours. In return for this they would receive a guaranteed weekly wage at an adequate standard.<sup>1</sup> This would have to be fixed at a flat rate for all ordinary members of the corps; for it would be clearly impossible in most cases to fix trade rates corresponding to the widely varying jobs they would be called upon to undertake. Skilled men, however, engaged to do specialised work at their own trades in connection with the operations of the corps, could be paid, or have the option of being paid, the Trade Union rates of wages appropriate to their jobs. It would probably be best, apart from these special cases, to base the pay of the corps upon a standard rate calculated as sufficient for a single man, and to pay supplementary allowances for dependents, at any rate pending the establishment of any general scheme of family allowances on the lines discussed later in this book.<sup>1</sup> The members of the corps would receive this pay and these allowances when their work in the corps allowed them to go on living in their own homes; if they were sent away to work at a distance in camp, under the conditions outlined below, they would be directly maintained by the State, and would receive rates of pay and separation allowances specially adjusted for the period of their service on any such scheme.

Clearly, a carefully devised scheme of training forms an integral part of this project. The Ministry of Labour is already, on a very small scale, conducting a few training centres to which unemployed workers can go for special courses designed to fit them to take up new occupations. The fatal weakness attaching to these schemes in the present situation is that there exist no actual vacancies for which the workers can be trained. It is not easy to find trades in which there exists at present any shortage of labour. This, of course, is also the decisive obstacle to the plan of 'industrial transference' which the Government has been trying, with complete lack of success, to stimulate during the past

<sup>1</sup> See further on this point p. 400, where the actual rates of pay are discussed.

few months. The creation of the National Labour Corps will entirely alter the position. Training will be given, to those who enrol in the corps, for the types of work which they will be called upon to do in it, and the only limit to the scale on which training for specific types of work can usefully be developed will thus be the scale of the operations undertaken by the corps. The duration and character of the training will vary from case to case according to the nature of the work; but normally, each man, on enrolment, will pass through some period of training before being sent to take up any unaccustomed type of work.

The National Labour Corps will need also to make provision for training of another kind. It will have to train men, not only for work in the corps, but for a return to ordinary employment as industry revives and more jobs become available in industry as a whole. It is useless to train men merely to compete for jobs in a labour market that is overstocked already. The utility of the second type of training, therefore, depends on the success of the measures, described later in this book, for bringing about a revival of industry. The National Labour Corps is an emergency instrument—a way of coping with a peculiarly urgent problem. It is put forward, not as a cure for unemployment, but only as a means of mitigating its effects. For a cure, the surgeon's knife will have to cut far deeper.

It is necessary, for fear of misunderstandings, to be particularly careful in defining the scope and character of the proposal here advanced. It is not suggested that the main body of the unemployed should be uprooted permanently from their homes and from all the habits of associative life and personal relations which they have built up. Wherever possible, the members of the proposed corps should be employed near their homes, and should continue to live at home. When this was not possible, as it would not be in many cases, it might still be quite practicable to find work near enough to enable those enrolled to spend the week-ends at home with their friends and families. This is one of the reasons for suggesting that a five-day week might be best suited to the conditions of the corps. Moreover, no man should be sent to a job far from his home, or to live in a camp, for more than a limited period except with his own entirely uncoerced consent. That is to say, he should be free to refuse such

duty without losing his place in the corps. The thirteen weeks adopted in the case of certain road schemes for which methods analogous to those here proposed have been actually employed on a small scale are quite long enough for a continuous spell of duty in camp away from home. Schemes lasting over a long period should be conducted by relays of workers, the continuity of the work being maintained by the retention of a permanent nucleus of skilled men, engaged at standard rates of pay in the ordinary labour market. It would, however, be fully legitimate to call, among younger men and men without close home ties and family responsibilities, for volunteers who would undertake to go far afield for longer periods; and in all probability there would be no lack of response to such appeals, at least when the scheme had been given time to get into proper working order. Less than a century ago our railways were being built by great moving bodies of labour not unlike those here proposed; and the better contractors, notably the famous Peto, even then successfully overcame the obvious difficulties involved. Less than a generation ago, the Americans successfully carried through the similar problem of constructing the Panama Canal; and the arrangements made for the vast labour force employed commanded almost universal admiration. There are, indeed, great social problems in the proper administration of the plan here put forward; but there is no dearth of examples to show that, with proper forethought and organisation, these obstacles can be surmounted. Even the experience gained in the management of the non-combatant units of the British Army during the War, though it would have to be greatly modified to fit the new conditions and, in particular, shorn wholly of its military character and of the penal discipline of army service, would not be without value in the organisation of this great experiment in social mobilisation.

I shall, of course, be told that what I am advancing is a plan for the militarisation of labour, and I know not what besides. The criticism demands an answer; but it is not difficult to find a satisfactory reply. The plan for a National Labour Corps involves no more militarisation than exists in any body of Boy Scouts or Girl Guides, in any Fire Brigade, or in any body of men who agree to accept a common discipline. Discipline is not the same thing as militarisation, though they are often confused.

There is everything to be said against militarisation; but there is a good deal to be said for discipline.

The charge that the plan involves industrial conscription is more simply met. It clearly does not, for the whole scheme is based on the principle of voluntary enrolment; and if an unemployed man prefers to remain unemployed to working under it, he is free to do so without any deprivation of benefits to which he would otherwise have been entitled. If a Government—and above all a Labour Government—cannot make an appeal of this sort to the unemployed members of the community and offer them the opportunity of useful service, it had better give up the attempt to govern at all. It is a cardinal Socialist principle that every man owes useful service to the community. Then why not give him the chance of enrolment in a corps designed to enable him to carry out his obligation?

Of course, it is possible that a good many of the older adherents of the Trade Union Movement will hold up their hands in horror at the tone of these remarks. But, if that is how they feel about my proposal, let them go and ask the younger Trade Unionists and Labour supporters whether they feel the same. It is fairly certain that they do not, and that the great mass of the younger unemployed workers at any rate would experience no temptation to indulge in individualist denunciations of an essentially Socialist proposal. They would be more likely to jump at the chance of doing regular work under healthy conditions and for regular pay. The younger generation has no such horror of discipline as afflicts a good many of its elders.

It has, of course, to be recognised that the instinctive objection of many old Socialists to the proposal here made is quite natural. They have been fighting all their lives against capitalist attempts to conscribe the workers for private profit, or military service, and, by an easy transference of ideas, they have come to think of conscription, or even of discipline itself, rather than capitalism or war, as the enemy to be fought. Here is one of those Socialist attitudes, useful in days when Socialists were in permanent opposition, that have to be scrapped if Socialists are to make use of the opportunities of power. The younger generation, having grown up in a new world in which the prospect of Socialism in power has been always a present reality, has no such scruples to overcome. The older Socialists will be wise, on all such points,

to take the advice, and study the mental reactions, of their juniors.

Let us assume that the next Labour Government has emancipated itself from old prejudices, and decided to take the step of forming the unemployed into a National Labour Corps. What work is the corps to do? In a phrase, its first job is to clean up England. Industrialism has made this country woefully dirty and bedraggled; and derelict industrialism is making it now, in many areas, meaner and uglier still. Let us, first of all, turn on the unemployed to clean away the dirt, the squalor, and the ugliness that are the familiar spectacles of every industrial area. Let them pull down slums, and run up new houses and tenements—even Weir houses, if we cannot build better, as I think we can, with the labour at our command. Let them paint, renovate, and re-decorate wholesale the dwellings that have still some life in them.<sup>1</sup> Let them clear away slag-heaps, and lay out parks, make roads and beautify cities, afforest empty spaces, prevent coast erosion, drain swamps and clean up useless debris of every sort. Here is work for all the unemployed we can set to it for a generation to come. And nearly all of it is work well worth doing, that capitalism has not done, is not doing, and is never likely to do.

Nevertheless, the cry will go up that the National Labour Corps is taking the bread out of honest men's mouths. Employers will complain, and certain Trade Unions of skilled workers will quite possibly begin by objecting that their craft monopolies are being invaded. A Labour Government will need to be ready to stand up to both sets of complainants, and to tell them, in polite language, to go to the devil. It will, of course, endeavour to set the corps only to work that would not get done by other agencies, and there is no reason why it should not succeed in this in ninety-nine cases out of a hundred. But the hundredth case will occur; and, even if it did not, that would not stop the complaints.

Take, as a test case, the proposal to turn the Labour Corps on to the work of slum clearance. Everyone knows that here is

<sup>1</sup> It will, of course, be necessary, in doing this, to avoid making a present of the taxpayers' money to the owners of slum property. The cost of the corps' work, in so far as it adds to the commercial value of private property, should be recoverable from the owner by ordinary process of law. But the owner should be made to pay only for work which does in fact add to the commercial value of his property.



work that is not being done at present, except on a merely insignificant scale. But the proposal to use the unemployed for doing it will probably arouse protests both from master builders, who would like to receive profitable contracts, and from the operatives' Trade Unions, which will accuse the Government of 'scabbing' on their trade. What is the answer to these complaints? Wherever possible, let the building trade, either through contractors or by direct labour, be given the first offer of building the houses needed to replace those scheduled for demolition. But if the supply of ordinary skilled labour gives out—as it soon will under these conditions—the Government should not allow its plans to be held up by the shortage. It will have to set the Labour Corps, not only to the work of demolition, but also to that of house-construction. Everyone knows that this can be done. If suitable methods of house-building are adopted, houses can easily be erected with the aid of only a small proportion of skilled labour.

Some building Trade Unionists, however, will probably protest even against a scheme which takes this form. If the affair is handled in the right way, they will find before long that they have not even their own fellow-members behind them in their protest. The objection in this case, as to the scheme as a whole, will come mainly from older men imbued with individualist ideas of the right to a craft. The opposition of these old craft unionists will certainly be a great deal easier to meet, if it is wisely and courageously tackled, than was the skilled engineers' hostility to dilution during the War. Indeed, it is not likely to be nearly so keen a hostility; for times have changed, and the new generation is not like the old. If the Government has common sense and courage, such craft union opposition as arises will speedily collapse like a house of cards. A Socialist Government need not fear failure in acting on a Socialist principle, even against the opposition of some of the older generation of Trade Union militants.

Of course I am assuming that the Government will play fair with the Trade Unionists, that it will in fact reserve the Labour Corps to the best of its power for work that would not be done by other agencies, and that, before undertaking through the corps any big piece of skilled work, it will give those whose normal occupation is the doing of such work the chance of

undertaking it. A somewhat parallel case is to be seen in the proposal put forward by the Government of Mr. Lloyd George some years ago to introduce diluted labour into the building trades in order to speed up the pace of house-building. This scheme broke down; but, though it was put forward by a Government to which the Trade Unions were hostile, their attitude to it was not one of unqualified opposition. They did not say that under no conditions would they allow 'diluted' labour to be introduced; they only insisted that, if it were to be introduced, proper safeguards must be provided. The scheme broke down because these safeguards were refused by the Government. By far the most important of them had to do with the danger of future unemployment. The building operatives feared that, if they accepted a large mass of 'diluted' labour into their trades, their own members' liability to unemployment might be seriously increased. The Government might design, for the moment, schemes of house-building that would employ all the available labour, including that of the dilutees. But there was no assurance that it would not, within a few years, so drop or reduce its housing programme as to leave the building trades with a huge surplus of labour on their hands. This had actually happened in the engineering trades as a result of war-time dilution, with serious economic consequences for the post-war engineer; and the builders were naturally fearful that it might happen to them if they fell in with Mr. Lloyd George's plan. They therefore asked for guarantees that the Government would maintain over a period of years a rate of house-building sufficient to absorb the available labour, including the proposed new entrants, or, failing this, that the unemployed builders should receive special maintenance. Being refused any guarantee, they opposed dilution; but it is important to notice that they opposed it only on this limited ground.

It has, moreover, to be remembered that the matter does not stop here. When a Labour Government came to office in 1924, and Mr. Wheatley, on its behalf, put forward a plan for speeding up house-building over a period of years, the building Trade Unions, on the promise of Parliament that the rate of construction would be maintained, readily agreed to a considerable increase in the volume of building labour, and so speeded up work that the number of houses built during the next few years

greatly exceeded the most sanguine estimates of what the industry could possibly achieve. Unfortunately, the Conservative Government, by successive reductions in the subsidy, thereafter proceeded so to discourage the local authorities from keeping up the pace of building that we have now a great mass of building trade workers unemployed, a sharp fall in the number of houses building, and a justifiable resentment among the builders at the moral breach of the pledges of 1924. The first task of a new Government will be to reverse this wrong policy, and by encouraging local authorities to resume house-building at the rate achieved after 1924 to absorb the surplus of unemployed workers in the building trades. This will materially reduce the dimensions of the problem to be tackled by the methods recommended in this chapter; and it should be borne in mind that, in discussing the work of the National Labour Corps, I am throughout assuming that the housing policy of the present Government has been reversed, and the promises made to the builders in 1924 implemented in both letter and spirit.<sup>1</sup>

The situation confronting a Labour Government will clearly be not quite the same as that which has been discussed above; but it will raise, largely, the same problems. To some extent, the existence of the Labour Corps itself provides the answer; for, through it, every unemployed man will be assured of the chance of maintenance under reasonable conditions. But this does not wholly meet the need; for what the builders want is work at their own trades under Trade Union conditions; and they will naturally oppose any scheme which threatens to transfer part of their work from the established channels to the Labour Corps. It will therefore be necessary to give them special guarantees; and obviously the best guarantee is that no skilled building work shall be undertaken by the corps in any area in which the Trade Unions are able to supply the necessary skilled labour under ordinary trade conditions. This implies a readiness on the Government's part to subsidise State-aided housing schemes up to the point required to absorb the entire supply of skilled labour in the building trades, and the use of the Labour Corps, for skilled building operations, only when this supply has been exhausted.

There are, I know, difficulties in the detailed working out

<sup>1</sup> See the note on Housing, in Appendix II., p. 447.

of this policy. The supply of skilled building labour will run short in some trades far sooner than in others. There will be a dearth of plasterers when there are still fully skilled carpenters to be had. But this difficulty can be overcome, in part by adapting the types of house-building to suit the supply of labour until there has been time to adjust the supply to the need, and in part by providing that any skilled men taken on to work at their own trades in connection with the Labour Corps shall be paid at the appropriate Trade Union rate of wages.

It is true that no Government can bind its successor, and that, accordingly, there will remain, whatever guarantees a Labour Government is prepared to give, the danger that these may be dishonoured if it falls from power. But, if the Government gives the best guarantees it can, this is a risk which Trade Unionists can reasonably be called upon to face. Absolute security is not to be had in this world; and, if Trade Unionists or any other class of persons attempt to insist upon it, their chance of getting anything done to cure unemployment will be singularly small.

If the scrupulous observance of the conditions laid down above is assumed, there is little to be feared from any Trade Unionist opposition to the scheme. The old-fashioned craft-union idea of the divine right to a craft and the capitalist idea of a divine right to extract a profit out of every economic activity are alike and equally ideas with which a Socialist Government cannot afford to compromise.

Let us then assume that this great body of workers, for whom capitalism can find no use, has been enrolled in a National Labour Corps, and is busy at fair maintenance rates and under healthy conditions of work, cleaning up Great Britain, and in the process creating new economic and human values on every side. For to make the country cleaner, healthier, and more beautiful, to pull down slums and to build houses, to plant forests and to make roads, to pluck out ugliness and squalor by the roots, is to create values no less important economically than socially. Will not this form of service, even if it meets with opposition at the outset, soon come to be recognised as a normal and desirable part of the national economic organisation? The earlier Socialists in many cases put forward plans which have a good deal in common with that which is here advanced. Owen proposed to

organise the unemployed in his Villages of Co-operation; the Social-Democratic Federation in its early days urged the creation of co-operative units of labour as the means of preventing unemployment; and Bellamy, in his *Looking Backward*, envisaged a period of labour service for the youth of his Socialist community. Even when unemployment has ceased to be a social problem, may not a Labour Corps on a smaller scale, a body of young men engaged on great public works of salvage and social development, remain a useful part of the economic system of a Socialist State? I do not say positively that it will; and it is not an integral part of the scheme that it should. But I think it very likely would in fact.

To those Socialists who still recoil from the suggestion here advanced, I put the question, 'What else?' What other way do they know of getting the unemployed back to useful work without dislocating the economic mechanism of the society in which we live? If there is a better plan, let the world hear it. Certainly, no one has advanced it yet. But to reject the proposal I have made without offering an alternative seems unthinkable. The Socialist is committed to the task of abolishing unemployment. He stands for the principle of the 'right to work'. How else does he propose to make that principle operative? He simply cannot, when power comes his way, confess that he has been talking through his hat all these years, and that he, like those whom he has attacked, knows no way of setting the unemployed to work.

It will, of course, be observed that the plan so far outlined is far better adapted for dealing with unemployment among men than among women. Most of the work that a National Labour Corps would be called upon to do is work for which men are far more suitable than women. This is a limitation to the scheme which I know no way of overcoming. It is not suggested that women should be excluded from the corps: indeed, there will obviously be some work for it which women are well qualified to do. But it cannot be used to deal with female unemployment on any large scale. The weavers of Lancashire and Yorkshire, the female hosiery and lace-workers of the Midlands, and the jute and flax-workers of Dundee and Northern Ireland are clearly very difficult people to employ in any alternative occupation. The National Labour Corps is not put forward as a solution of the problem of unemployment among women workers.

But, while this limits its scope, no case against it can be built on the limitation. We shall be in a far better way to deal with the lesser problem of female unemployment if we can find means of setting the much larger body of male unemployed to useful work. It is of course desirable that the Labour Corps should find as much work for women as it can; but its most pressing task is the re-employment of miners and metal-workers, shipbuilders and general labourers from the depressed heavy industries which are never likely to reabsorb the redundant labour now vainly seeking work in them. The means of dealing with unemployment among women must be sought rather in general measures designed to bring about the recovery of industry as a whole.

I have left to the last what will doubtless seem to many supporters of Labour the chief objection to the proposals outlined in this chapter. The National Labour Corps, they will urge, would be all very well as long as a Labour Government remained in power. But what if it were succeeded by a Government of a different political complexion? Would not the corps then become at once a tremendously powerful weapon against Labour? Could it not be used to beat down wages, to serve as a great organised force of strike-breakers in time of industrial conflict, and in general to do the dirty work of capitalism at the taxpayers' expense? I do not suggest that these arguments have no force at all. Indeed, I can conceive that a Government hostile to Labour might try to use the corps in all these ways. But this does not appear to me to be a good case against the policy which I have put forward. It is a risk that has to be taken if the problem of unemployment is to be seriously tackled at all.

The point is one that is bound to recur to some readers' minds in connection with many of the later chapters of this book. The things I want a Labour Government to do—can they not, in one case after another, be twisted, by hostile administration, into weapons against Labour itself? The answer is that, up to a point, they can. The Socialist believes that for the regeneration of industrial society it is necessary to secure a great increase in the economic powers and functions of the State. He wants to win control of the State in order to bring about this increase and carry his policy into effect. But in increasing the powers and functions of the State he necessarily increases the powers and functions of any Government that he and his fellow-voters install

in authority. Not only at this point, but at every point, he makes the State a more potent instrument for the carrying out of whatever policy its rulers have in mind. Either, therefore, he must assume that when a Labour Government comes to office it is to remain in office for good and all; or he must be prepared to have some of its measures used against it when and if it falls from power. There is no avoiding this dilemma; and it is not of the slightest use to pretend that it does not exist.

What, then, ought we to do about it? The only sensible course is to go ahead with the doing of the things that ought to be done, even if they are capable of abuse in the hands of a hostile Government. Unless we do take up this attitude, we shall never get anything done at all. It is perfectly legitimate and wise to take all possible precautions to make it difficult for measures passed by a Labour Government to be abused by a hostile successor; but it is neither wise nor legitimate to refrain from attempting to clean up the mess because we are afraid that the order which is substituted for it may be capable of being turned to uses to which we are opposed.

But it is not necessary in this instance to rely solely on this general line of argument. The creation of the National Labour Corps will not diminish, but very greatly increase, the bargaining power of the Trade Unions. Trade Unionism is weak to-day in bargaining power because of the great body of largely unorganised workers out of employment, whom economic pressure drives to accept work even under unfair and degrading conditions. The option of service in the National Labour Corps would make the pressure of this mass of unfortunates on the available jobs far less severe, and would help the Trade Unions in standing out more strongly for reasonable terms and conditions. Anything which serves to lift out of the scramble for work a great body of men whom half-starvation has driven to let down all their standards, and to care nothing what work is like or how it is paid as long as they get it, will greatly increase the effectiveness of Trade Unionism as a bargaining force.

The workers, moreover, are strong in proportion to their self-respect; and the worst feature of the present situation is that this self-respect is being steadily destroyed and undermined. A century of Trade Unionism has helped to build up in the minds of the workers certain standards of decent living, to

which they have learnt to cling, through all the ordinary ups and downs of trade, as their minimum bargaining terms—the minimum supply price of labour, in the phrase of the economists. These standards are proof against the normal fluctuations of employment, but not against the utter devastation which the past few years have brought into some parts of our coalfields and heavy industrial districts. In these areas, the entire conception of a minimum standard of life is being destroyed; and with it is going the self-respect of the workers, and their ability to make any sort of stand against adversity. This applies even to the older men, but most of all to the youths who are growing to manhood amid such surroundings. Nor is it possible for long to keep these disastrous social consequences confined within a few specially devastated areas. From these they will inevitably spread over the country, unless they are firmly checked at their source. It is therefore indispensable, if the workers' self-respect and bargaining power are to be preserved, to stop at once the evil destruction of the quality and substance of human life, and no policy that, from fear of ulterior consequences, knowingly permits their continuance deserves even a moment's consideration.

This destruction of the workers' self-respect, practised assiduously by the Government during the past few years, is a far more powerful weapon against Labour than any misused Labour Corps could possibly be. A body of workers well fed and accustomed to useful service will be a far less ready source of blacklegs, or beaters-down of wages, than a half-starved mass of unorganised and hopeless unemployed. It is indeed, the supreme advantage of the policy outlined in this chapter that, once put into force by any Government, it would be exceedingly difficult for any subsequent Government to undo. When once employment has been provided for those workers to whom at present the right to work is denied, it will be nearly impossible again to take the right away. Possible attempts at the misuse of the labour enrolled are of little account beside that fact. For the removal of the fear of destitution as a consequence of unemployment will have armed the workers with the power of resisting such misuse.



## A NOTE ON RELIEF WORKS

I am well aware that the proposals contained in the foregoing chapter are likely to be subjected to strong criticism on the ground that they really involve a return to the policy of relief works, which has been often tried in the past, and has almost uniformly failed. I agree entirely that it is difficult to find more than one or two isolated instances in which the policy of starting emergency works in order to employ the unemployed have not been a failure. The history of the entire subject may be studied by those interested in it in Mr. R. C. Davison's recently published book, *The Unemployed*.

I do not, however, agree that the failure of relief works is sufficient ground for holding that no scheme for the emergency provision of work for the unemployed can be a success. Past schemes for the carrying out of relief work have failed mainly for the following reasons:

- (1) The work has usually been improvised in a hurry, and no sufficient care has been taken to devise work that was either really useful, or suited to the capacities of the workers to be engaged upon it.
- (2) The work has been commonly treated by *those responsible for it* largely as a form of task-work, the doing of which has been made a condition of relief, and this attitude has inevitably communicated itself to the men engaged upon the work, with the result that they have done as little as they could.
- (3) The men selected for the work have commonly been the most needy, and not the most suitable, so that the directors of the scheme have been set an impossible task.
- (4) No training or restorative treatment has been given before the men, whose health and morale had often been undermined before they came to the scheme, have been set to work often of an exacting and exhausting nature. To set men a task beyond their powers is to encourage them to regard it as a task to be shirked.
- (5) The common requirement that the work should be carried out solely or mainly by *local* unemployed labour has prevented either a right selection of men for it, or a right selection of work to be undertaken. For the need for work is often greatest in the areas of least unemployment, and least where suitable labour is available.
- (6) All past schemes for the provision of work have been half-hearted, badly administered, usually by people who did not believe in them, and suspended at the earliest possible moment. Apart, therefore, from the foregoing objections, they have never had a fair chance.

It follows from these six points that

- (1) The greatest care must be taken in planning the work to be done, and the planning must be done nationally, and not left to the separate initiative of the Local Authorities.

- (2) No work of any sort must be made a condition of relief. Membership of the Labour Corps must be purely voluntary—a privilege and not an obligation. And the directors of the scheme must have the power to dismiss unsatisfactory workers.
- (3) For each piece of work, men must be selected on the ground of their personal suitability and physical fitness, and not merely because of a desire to find them a job. There must, moreover, be for each scheme an adequate nucleus of skilled labour, engaged at Trade Union rates, and employed permanently as long as the scheme lasts.
- (4) Adequate training, and restorative treatment for workers previously broken down by unemployment or from any other cause, must be an integral part of the scheme, and men must be put to work only after training, or on a satisfactory assurance of their capacity and fitness for the job in question.
- (5) The scheme must be national and not local, and there must be full freedom to use the workers enrolled in it in any area, and not only in their own localities. Similarly, work must be provided in the areas where it is wanted, and not necessarily where there is most unemployment.
- (6) The proper administration of the scheme, and the recruitment of the right type of leaders and managers, is vital to its success. And it must be on a large scale and its continuance on that scale assured as long as the unemployment problem persists.

If these conditions are satisfied, I believe the scheme will not merely succeed in getting useful work done at a very reasonable cost, but also add greatly to the efficiency of those employed in it, and make a real contribution towards solving the perennial problem of the 'unemployables'. For, while some 'unemployables' are doubtless born, many more are made by the devastating experience of prolonged unemployment.

## CHAPTER IV

### THE RESTORATION OF INDUSTRY

The National Labour Corps only an interim measure—We must take steps for the lasting restoration of industry—The Electricity Act—A first step towards the redistribution of our economic resources—The process of investment under 'private enterprise'—Can we afford to leave investment unregulated?—Do we save the right amount?—Or apply it to the right uses?—Saving and interest rates—Does the investor's advantage coincide with the good of the community?—Many socially desirable investments are unattractive to the private investor—This especially true at present—Destruction of old capital through wrong application of new—Capital is really power over labour—And determines the distribution of labour—The Labour Party's proposed Employment and Development Board—The Liberals' proposed Board of National Investment—Need for a body of this sort—Its functions and powers—In financing public and statutory bodies—And in lending to private industry—Argument from the growth of Finance Companies and Investment Trusts—Their economic effects considered—Wanted : a State Investment Trust—Conditions of advances to private firms and companies—Proposed extension of State control—State directors on boards of companies—Company Law and Research Associations—The Labour Corps and the Investment Board as complementary aspects of a sound unemployment policy—The economics of communal and private enterprise contrasted.

THE proposal to form a National Labour Corps is, of course, only one item in the immediate programme of Socialism for the prevention of unemployment. With it go two other proposals of equal importance, the conscious development of national economic resources, and the conscious guiding of new capital into the channels which will best further this development. Great Britain is at present in many respects lamentably ill-equipped for efficient production. A beginning towards her better equipment has been made in one direction by the recent Electricity Act, which is at last causing the question of electrical power to be taken seriously in hand. This Act has many weaknesses, some

of which are discussed later in this book; and it should be possible for a Labour Government both to strengthen its provisions and to improve its administration and greatly speed up its working. But, with all its faults, it is a measure conceived on the right lines, and marking a new step in the relation of the State to key industries and services. Conservatism may claim, if it will, the credit for passing it, though in its main features it was already in draft when the first Labour Government was in power. If Conservatives choose to claim credit for measures having a marked Socialist tendency, no one need have any desire to question the claim, which only serves to strengthen the Socialist case.

Any Government that means business will aim, then, at speeding up the creation, under strong public control, of a great and unified national system for the supply of electrical power, based on the super-power stations and main transmission lines now planned or under construction. It will aim at carrying quickly cheap power to every corner of the country, with the object of helping industries to reduce their costs, farmers to adopt machinery on an extended scale, transport to be improved and cheapened, and the amenities of life in both town and country to be substantially increased. It will, further, in accordance with plans already put forward, seek to link up this great national service of electrical supply with a reorganised coal industry from which it will draw its chief raw material, and with a nationally controlled and co-ordinated railway system. It will take seriously in hand the improvement of roads and road transport, and their co-ordination with the railways into a unified transport service.

These measures will help productive industry; but they will not enable it to rebuild its prosperity on pre-war lines. In accordance with the conclusions reached in the second chapter of this book, our future policy must be based, not merely on improving the mechanical equipment of industry and the efficiency of its management and organisation, but also on a definite readjustment of its proportions in view of a changed and changing world economic situation. To direct this process, and to guide industrial development into the right channels, is by far the harder part of the task which a Government that means to go to the root of the problem will have to face.

The difficulty is here far less of mechanism than of actual administration. It is not hard to outline the machinery needed in order to give a determined Government the necessary control over the flow of economic resources in the form of capital and credit; but it will be a highly skilled job, calling for a high degree of imagination and technical competence, to use aright the powers which the State will have to assume. The principle is easy; but the details are bound to involve constant and difficult decisions.

At present, the process of industrial investment is left almost wholly unregulated by the State. Certain classes of investment are, indeed, given the status of trustee securities, and thereby assured of a preferential position in the stock market. But these are fixed-interest securities for the most part, and moreover not industrials, but mainly various forms of public or quasi-public loans and stocks. The State has further, under the Trade Facilities Act, guaranteed, as an exceptional measure, the interest on certain post-war issues, notably in the case of the London Underground Railways. But, apart from these relatively insignificant forms of interference, the investor has been left hitherto without any guidance from the State as to the form or direction of his investment. We have prided ourselves on the freedom and elasticity of our Joint-Stock system, on the value of the free capital market of London, on our trust in the sagacity of the investor and the business men who advise him in directing his money into the right channels. The amount, as well as the direction, of new capital has been left to that providence which has been supposed to watch over Great Britain's economic affairs. We have merely trusted that out of the sums distributed to the various members of the community in the form of incomes, the right amount will be spent and the right amount, from whatever motive, saved and judiciously invested.

These are, in reality, astonishing assumptions. It is true that the rate of interest, based on an equilibrium between the supply price of capital, or in other words the readiness of the income-receivers to save and invest, and the demand price, or in other words the readiness of business men and others to offer payment for its use, has been supposed to indicate an automatic regulation of the supply. It is true that the search of investors for maximum profit has been supposed to distribute the available capital among

the various claimants on the whole in the most economic way; for the ability of the borrower to pay highly for the use of capital has been taken as indicating usually his power to put it to profitable use. These methods of automatic regulation, however, can hardly be regarded as infallible. There is, as Mr. J. A. Hobson has pointed out, no real reason for supposing that the income-receivers will in fact save just the right amounts, or that the rate of interest will fix itself at just the point that will elicit the correct total supply of capital to promote the maximum social well-being. And there is still less reason for holding that the preference of investors will automatically result in the best possible distribution of new capital from the standpoint of society as a whole.

Take first the problem of the amount saved. According to the theory commonly put forward in economic textbooks, the rate of interest is the inducement to saving, and interest is the reward for saving one's money, instead of spending it on immediate enjoyments. But most people—even most economists—will admit that in fact the greater part of the saving that takes place in Great Britain is not *induced* by the rate of interest at all, but is automatic, in the sense that it consists of surplus incomes which the recipients do not want to spend. A lessened inducement, in the form of a reduced rate of interest, would not deter them from saving, though it would actually cause them to save less. They would save less, not because the lower rate of interest deterred them, but because the lower rate would lessen the amount of their incomes, and thereby leave them with a smaller surplus to save, unless they were prepared to reduce their standard of life. It is not the inducement offered, but the size of rich men's incomes, that determines the greater part of the saving under present-day conditions.

It has of course to be admitted that the rate of interest, as an inducement to saving, does also directly affect the accumulation of capital. For even if four-fifths of the amount saved consists of automatic saving, as long as the remaining fifth needs to be induced the rate of interest necessary to induce it will have to go to all savers who put their money out at interest, whether they need the inducement or not. This is only to agree, broadly, with the economists that the rate of interest is determined 'at the margin', and that the automatic savers and all who would save for a

smaller inducement secure a 'quasi-rent' or 'investor's surplus'. It must, on the other hand, be remembered that if automatic saving ceased or fell seriously in amount, and all saving had to be 'induced' from persons who felt a desire to spend their money instead of saving it, the supply-price of capital would tend to be much higher than it now is. This is, of course, only to say that the present methods of providing new capital are suitable only for a society containing a large number of rich men, who make large savings automatically out of surplus incomes which they feel no desire to spend.

The rich, as the apologists of capitalism are fond of pointing out, thus keep down the rate of interest against themselves, and to a great extent put back into industry the wealth which they derive from their ownership of claims upon its product. But that they put back the right amount, or that their automatic savings added to the amounts saved from other causes—under the inducement of interest rates, or by thrifty citizens putting by for old age or a rainy day—come to the right total to meet the needs of society, is merely an unproved assumption. The fact that each saver puts by just what he deems it worth while to put by, or not worth his while to spend—even if that highly rationalistic assumption be allowed to pass unquestioned—by no means implies that all their individual decisions add up to a collective decision making for the greatest happiness of the greatest number, or for the well-being of society as a whole. To urge that it does this is merely to put faith, in this particular field, in a pre-ordained harmony of the economic system which few people are prepared to credit nowadays.

If there is no guarantee that the right amount will be saved, still less can it be assumed that what is saved will be directed—by an unseen divinity shaping our economic ends—into the right channels. We may assume that each investor in his own way seeks the maximum profit from his investment—allowing of course for the fact that one plays for safety while another takes risks in the less certain hope of a higher return. But we know and admit that many investors are very foolish. Have we not been engaged, during the past year, in the process of amending our Company Laws with the object of protecting them against 'share-pushers' and others who trade upon their folly? Even the most ardent advocate of capitalism will admit that

much capital is misdirected. He may hold that this is but the inevitable friction of a beneficent system; but he will not deny the fact.

Apart, however, from the possible folly of the investor, there is the far more serious point that the advantage of the investor, measured in interest or profits, may fail to coincide with the advantage of society. It is notoriously difficult to raise capital for investments which involve a prolonged period of waiting before any adequate return can be expected, unless the hope of huge windfall profits in the long run is so great as to tempt the great capitalist undertaker into the field. The ordinary investor discounts the distant future very heavily, and is indeed compelled to do so, because he cannot afford to wait very long for his return, or to assume the inevitable risks which the possible changes and chances of a long period of years involve. Investment for the distant future thus becomes the monopoly of very rich men; and these, with the world as their province, are in a position to pick and choose with a view to the greatest personal gain. Foreign investments for the distant future are far more likely to tempt them than such investments at home; for there is usually a greater chance of windfall profits in exploiting a new country than in improving the economic organisation of one already developed. Moreover, many desirable investments which involve long waiting are desirable less in themselves than because of their beneficial effect on other branches of production. A great electrical plant taking a period of years to build will probably never yield a large windfall profit to its owners, both because the utilisation of it depends on the cheapness of its supply, and because the State will almost certainly step in to regulate its profits in the interest of the users of its product. Its value to the community is measured, not merely by the dividends paid to its owners, but by its effect on the productive costs, and thereby on the prosperity, of all other industries, and by its contribution to solving, through a cheap domestic supply of electricity, the problems of the household consumer. It may create in these ways infinitely more wealth indirectly than ever passes through its hands. But not a penny of this wealth will exert any influence on the investor who is deciding whether to put his money into it or into, say, an oil-well in Burma or Persia. That is why the guaranteeing of dividends by the community has been made an integral part of the



schemes for raising capital for the development of electrical supply under the recent Act. That the conditions under which this has been done are unsatisfactory does not affect the soundness of the principle.

This example has been introduced in order to point the contrast between the considerations which inevitably influence the investor in placing his money and those which should weigh with the State in endeavouring to get the national savings distributed to the best advantage of the community. This particular case has, indeed, already been so clearly recognised as to be sought out for exceptional treatment; for even a Conservative Government has recognised that the money for electrical development must be found, and has therefore placed its credit behind the scheme, and so made an otherwise unattractive investment more attractive to the ordinary investor. My point here is that, while the example is outstanding, it is not exceptional. There is no necessary coincidence between the profit of the investor and the social good: indeed, every year the actual course of investment gives the lie to any such supposition in a thousand ways.

This is true at all times, but especially at times like the present. For our existing economic conditions have conspired to make unattractive a great many of the investments which offer the greatest prospect of social advantage. Our old industries need in many cases re-fashioning from top to bottom; but who, unless he is let in on the ground floor for some quite exceptional chance, is going to invest his money to-day in saving our coal mines or our older steel plants from their present derelict condition? The risk is too great for the ordinary investor; for unless the thing is done on the grand scale, and with a comprehensive economic policy behind it, failure is, to say the least, highly probable. The investor will prefer gilt-edged securities or overseas issues; or, if of a more speculative turn, he will concentrate on motors, gramophones, and artificial silk, and similar booming industries, with the result of forcing up their share-prices and absorbing in them, from the social standpoint, an unduly large proportion of the available new capital. Or, if he does consent to touch the old struggling trades, he will insist on debentures or preferential claims which will pile up the overhead charges and so, as the price of giving him some degree of security for his investment,

increase the financial difficulties of the businesses to which he lends his money.

Trust in the capacity of the investing public to distribute its savings aright from the social standpoint produces, in times of prosperity, inconvenience and waste, but not disaster. When, however, industry is depressed, not by some mere passing wave of adversity, but by permanent causes needing positive measures of correction, its results are positively calamitous. It results in leaving the vast resources already sunk in the depressed industries to wither away for lack of new applications of capital at the right points; and it does not lead to any balanced development of new industries and services to take the place of those whose power to provide employment has suffered permanent contraction. In particular, at such times the flow of capital to productive industry as a whole is likely to be seriously checked, and resources to be used instead at home and abroad in merely financial operations which minister not at all to industrial recovery. For we must never forget that, even if the amount of saving is taken as fixed, its distribution between all the alternatives open to the investor has still to be considered. He may place it in productive industry, or in commerce and distribution, or he may employ it in short-time financial operations (on the Stock Exchange, for example) and thus temporarily withhold it altogether from productive development. It is beyond question that this last has been occurring to a great extent in Great Britain in recent years, and that, if we are to get our old industries re-fashioned and new industries developed to employ our people, it will be necessary for the State to take special steps in order to ensure the provision and direction into the right channels of the capital which is the indispensable basis of national reconstruction.

Of course, capital is in the last resort only human labour, or the right to command the services of human labour. The capitalist to-day, in directing his capital into this or that field, is in effect distributing (or refusing to distribute) labour between different occupations—bidding this man make machinery, this man motor cars, this man textile fabrics, and this man act as a bank clerk, a goods porter, or a shop assistant, and dooming this man not to be employed at all. The mischief is that the capitalist can not only distribute labour wrongly, so as to cause a maladjustment of the productive system, but can also refuse to distribute

it at all, and leave it unemployed and unproductive. He cannot, indeed, in the end receive his income except out of the product of industry, but he can so use his money as to intercept wealth rather than promote its creation, or as, while aiding the creation of wealth for his benefit in some other part of the world, at the same time to destroy in his own country more than he helps to create elsewhere.

It is important to fix our minds on the proper function of capital as an aid to production, and therefore a cause of the distribution of labour. For, as soon as we see it in this light, it becomes obvious that the control of the flow of capital into different undertakings is a matter of vital social concern, not exceptionally, in special cases like that of the railways, but as a whole. It becomes immediately pertinent to inquire by what means the community can best influence the flow of capital into different uses, so as to secure its most productive fusion with the indispensable factor of all production—labour. It is the function of capital to set labour in motion; and, if capital unguided by society fails to serve this purpose adequately, society must intervene with definite measures of guidance and control.

What are these measures to be? In the Labour Party's new programme there figures a proposal for an Employment and Development Board, to be financed by means of a special annual grant from the Treasury, and entrusted with the task of "bringing development schemes to the point of execution in readiness for the time when they should be pushed ahead in the interests of employment and trade". Land drainage, afforestation, slum clearance, housing and town-planning and road development are among the examples cited by the Labour Party as suitable for promotion by the Board. Moreover, in *Britain's Industrial Future*, the recent report of the Liberal Party's Industrial Inquiry Committee, will be found a plan for an 'Economic General Staff', backed by a Board of National Investment designed to foster and finance particular services whose development is regarded as indispensable in the national interest. This Board would take over the functions of the National Debt Commissioners and the Public Works Loans Board, and would have control over all capital resources accruing from any source in the hands of public departments. It would be authorised, moreover, to raise National Investment Bonds, with Government guarantee behind them,

in order to augment its resources, and would have freedom in lending the money in its hands to productive and similar enterprises which it was desired to encourage in the national interest. It would, in addition, be given the power—highly significant in view of its source—to control, under certain conditions, in conjunction with the Bank of England, the issue of overseas public loans in this country.

These proposals are far too timid and hesitant; but they indicate clearly the right line of advance. The State has both to prevent the misuse, from the national standpoint, of the limited economic resources in the possession of its citizens, and, by positive means, to foster their use in the right way. There should accordingly be some body, acting on the State's behalf, endowed with power to prohibit or license, according to the national interest, not merely public loans raised in this country for overseas use, but all loans so raised. This is not, of course, to suggest that all such loans are bad, or ought to be prevented. Some are, indeed, indispensable in creating a demand for British products. But it is equally true that many overseas loans which are raised in this country react unfavourably on British industries, and that even loans whose purposes are satisfactory from the British standpoint may be so raised as to starve home industries of capital which they sorely need. The Employment and Development Board, or the Board of National Investment—the name is not material—ought clearly to be entrusted with the control at least of all overseas investments, and to be guided in granting or refusing licences both by the possible effect of the foreign investment on British production and trade and by the needs of British industry for new capital.

So far its function would be purely negative. It should clearly have in addition the power to make loans, not only to public bodies, but also to industries needing capital for development, and also, even when it did not actually make a loan, to guarantee loans issued by public utility services and, under proper safeguards, by other productive concerns.

Indeed, there seems to be no reason why at an early stage a further step should not be taken, and all public appeals for capital, whether for use at home or abroad, require the sanction of the National Investment Board. This would not prevent the raising of capital privately by individuals or by private com-

panies; but it would at once bring all new capital raised by public joint-stock concerns within the province of the Board. Whether private companies should be subjected to any similar, but less stringent, form of regulation is a point worth considering; in any event private companies subsidiary to public companies should be governed by the same regulations as the parent concerns under whose control they are. The entire relationship between public and private joint-stock concerns needs, indeed, far more drastic revision than it has received in the unsatisfactory new Companies Act recently passed into law.

The object of preventing the misuse of capital is, of course, the promotion of its proper use. No one wants to shackle investment, except for the purpose of improving its quality. The main function of the Board of National Investment is accordingly not negative but positive and constructive. Its regulation of the private processes of investment will be designed solely to smoothen the way for a more effective direction of the available national resources. It will act, in the first place, as a great reservoir of new capital from which public bodies and statutory undertakings of every sort—from municipalities to public utility housing societies and the like—will be able to draw, on easy terms, the capital required for productive developments of national importance. So far it will only be carrying out on a far more extensive scale functions which the State, through the Public Works Loans Board and in other ways, has already in part assumed. Its more novel and constructive function will be to help the development of industries generally, even where they are not conducted by a public body or specially constituted statutory undertaking.

This proposal emerges naturally out of the present tendencies in the capital market. In the raising of new capital for industry there have been, of recent years, two startling developments—the increasing tendency of industries to finance themselves by the placing of a substantial part of their profits to reserve, and the rapid growth of Investment Trusts and similar agencies. The former tendency, especially marked during the period of high profits in the War years and up to the great slump, has been on the whole well maintained by those businesses which have not felt exceptionally the force of the subsequent depression. It has, indeed, in recent years, accounted for the major part of the accumulation of fresh capital in private industries. On the whole,

it is a thoroughly sound tendency, though it is capable of abuse in the manipulation of bonus share issues, and in its effects on the real incidence of taxation on the rich. The proposed control of the Board of National Investment will not affect it, though it may be found desirable to give the Board control over the terms upon which bonus share issues may be made.

The second tendency is, from our immediate standpoint, of the greater importance. The Investment Trusts' success rests essentially on their ability to spread risks. Operating with a large mass of capital belonging to different investors, they are in a position to take without danger risks which the isolated investor could not reasonably incur. The failure of one or two investments is a serious matter to the ordinary investor; but in the Investment Trust they may be set off against equally startling successes. The Trust can so spread out its money as to possess itself of holdings which are unlikely all to be affected by any one cause of depression. It can take up complementary investments, and, if it is prudently managed, go a long way towards the elimination of risk while still investing a large part of its money in individually risky enterprises. Well-managed Trusts have been enabled by this means to maintain payment to their shareholders of regular high dividends throughout the recent years of trade depression. Of course, not all have done this; for it is quite possible for an Investment Trust, as for any other business, to fail through incompetent management, or to put, through dishonesty or overconfidence, too many eggs into one basket with a hole in its bottom. Investment Trusts are not fool-proof; but there is no reason why, with proper management, they should not be nearly as safe as banks. And, in the well-known proverb, banks have displaced houses as the type of security that can hardly go wrong.

There is, however, from the standpoint of the community, a grave fault in the highly successful operations of the Investment Trusts. They tend, under the present conditions of the investment market, to place far too large a part of their resources abroad to become effective agents in the stimulation of home industry. Indeed, their very success may, under present conditions, easily make them before long powerful agents in drawing capital away from British industries to uses more productive of profit for their shareholders. The collective wisdom of skilled financial management, which they substitute for the often un-

trained caprice of the individual investor, undoubtedly makes for improved returns; but it may, for all that, have anti-social effects. Private and public gain, as we have seen, do not necessarily coincide.

The experience of the Investment Trusts furnishes, nevertheless, a valuable lesson in the possibilities of collective finance. If the Trusts can spread risks and in the process go a long way towards eliminating them, so can the State itself. The Board of National Investment, with the resources placed in its hands by public departments and with those borrowed directly for re-lending, will be in a powerful position to stimulate desirable industrial developments with far less risk than any single enterprise among those so aided may involve. Moreover, while the Investment Trust has to return all the profits to the investor, in the form either of dividends or of an appreciation of their capital, the State will be in a position, by virtue of its unchallenged credit, to borrow at rock-bottom rates of interest, and therefore to re-lend to necessitous industries without loss at rates which no Investment Trust could possibly afford. For the aim of the Board of National Investment will be, in the early stages at least, not the making of a profit, but merely the covering of its working expenses and interest charges. It can therefore become an immensely powerful agency in the reorganisation of the productive system.

It will doubtless be objected that, as the aim of the State will be to foster desirable developments that would not otherwise take place, it will be left with all the unprofitable undertakings to finance, while private capitalism continues, as now, to take all the favourable opportunities for itself. It will be further urged that a body confined to home (with perhaps some imperial) investment will not be able to secure results anything like as favourable as an Investment Trust which is free to range the world. It will be added that the Trusts make a substantial part of their profits by skilful and rapid shifts of investment, in order to take advantage of every chance of securing a capital appreciation, whereas the Board will tend to find its money locked up, and will have no opportunity of raking in windfall profits.<sup>1</sup>

<sup>1</sup> I am, of course, aware that it is a matter of principle with *bona fide* Investment Trusts, as distinct from Finance Companies, not to distribute to their shareholders dividends based on capital appreciation, but to place such

All these criticisms have some substance, and no one suggests that the Board, seeking not profits for their own sake but the good of British industry, will show financial results as favourable as the successful Investment Trusts. But it does not need to do this. It only needs to cover its costs, and this it should readily be able to do. For it must be remembered that many investments which fail to attract the ordinary investor are not unprofitable, but only involve too large a risk for him, as an isolated venturer, to contemplate. Moreover, in many cases the deterrent, from the standpoint of the ordinary investor, is the long period of waiting involved; but this, if the return is adequate in the long run, does not matter to the State, which has a superior borrowing capacity to any individual or syndicate, and can accordingly get its money more cheaply.

What industries or businesses, it will next be asked, should the Board of National Investment set out to develop? The only general answer possible is—Any industry that seems likely to succeed, and to provide employment on fair terms. The Board must, of course, not make disguised subsidies: it must lend only where it believes that its money has a reasonably good chance of being well and profitably used. It would be an abuse of the scheme to lend to a coal mine too badly placed to recover a sound economic position; but it would be a most desirable use of it to lend to a mine which only needs re-equipment in order to get once more firmly upon its feet. It would be wrong for the Board to subsidise a cotton mill incapable of restoration to economic soundness, but the height of wisdom to aid struggling mills which can be made again productively and commercially efficient to liquidate their existing burdens and make a fresh start.

It is not suggested that any advance should be made without stringent conditions. If industries want the help of cheap public credits for capital development, they must be prepared to comply with any reasonable requirements that may be made a condition of the loan. Thus, in advancing money for the rehabilitation of the Lancashire cotton trade, the Investment Board might reasonably insist on an equitable adjustment of the

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appreciation to reserve as a security for future dividends. This point, however, does not affect the argument stated in the text, though it is in itself of great importance, and constitutes the main distinctive feature of the Investment Trust.



existing financial claims upon the firms affected, so as to reduce burdensome overhead charges, and give the re-capitalised mills a chance to start fairly on their new career. Similarly, desirable amalgamations of collieries and participation in properly organised schemes of co-operative marketing might be made conditions before advances were given to firms in the coal industry. The businesses affected could always either take or leave the help offered. They could not reasonably claim to receive the help without complying with the conditions.

The object of the Investment Board would be not only to set old enterprises on their feet, but also to call new ones into existence. In this case, the most important condition to be laid down is likely to be in many cases geographical. There is vital need for the stimulation in certain of the depressed areas of alternative industries to those which are at present being contracted or closed down. If, for example, the Lancashire cotton trade is likely, in certain of its branches, to undergo a permanent contraction, there is a great deal to be said for offering special inducements to the rising artificial silk industry to settle in those parts of Lancashire whose previous occupation is being stolen away. There is a strong case for influencing certain developing branches of the metal trades to settle in South Wales, in close proximity to Welsh iron and Welsh coal, not only for the sake of the employment which the new works will directly provide, but also for the reaction upon the depressed heavy industries of the area. The Board of National Investment will be in a position to hold out strong inducements of this sort, without embarking on any undertaking that has not a reasonable chance of repaying the expense, and without causing any industry or establishment to be started in an area that is not suited to its operation. If in any case it is desired to help with capital an industry that is not expected to yield a sufficient return, this either should not be done by the Board, or should be done out of a special fund provided by the Treasury for the purpose. Subsidies, if they are ever to be given at all, should never be provided out of loans, or allowed to mess up the accounting of a national body which will be expected to act on the principle of making both ends meet.

When the State makes loans to industry, lending its cheap money to the private firm in such a way as to give it the benefit

of its superior borrowing power, it may reasonably insist not only on conditions governing their use, but also on some control over the firm enjoying them. Wherever any considerable amount of State capital is invested in a productive enterprise under the scheme here put forward, the Board of National Investment should have the right to appoint one or more directors to the board of the concern receiving the help, and, whether or not it avails itself of this appointing power, should have and use the right to conduct an independent audit of the firm's books, and to report to its shareholders and to the public upon its administration. British industry sorely needs far more publicity about its doings, far more independent auditing of the accounts of the firms that make it up, far more continuous scrutiny of the efficiency of its productive management and business methods. Rightly used, the Board of National Investment can become a powerful agency in improving the technique of business management and, by affording a central clearing-house for economic information, help manufacturers, traders, and technical staffs to act with far fuller knowledge alike of what other firms are doing, and of the market conditions and opportunities before them. In connection with this aspect of the Board's work, it would probably be found desirable to transfer to it certain duties which now fall upon the Board of Trade in connection with joint-stock companies, patents, and the scrutiny of public utility societies, to place under its aegis the various Research Associations for particular industries now connected with the Department of Scientific and Industrial Research, and indeed to co-ordinate under its supervision all the public bodies undertaking any form of scientific research or investigation connected with the technique or administration of industry. It should also be closely in touch with the Registry of Joint-Stock Companies, which might well at a later stage pass directly under its control and, in connection with the further reform of company law, be strongly tuned up as an instrument for the promotion of honesty and efficiency in the financing of business enterprise.

The effective use of the powers conferred upon the Board of National Investment would be the second, and in the long run by far the most important, aspect of any constructive policy for dealing with unemployment. The National Labour Corps

proposed in the previous chapter is, at any rate on the large scale there contemplated, essentially a measure of emergency. It is a method of quickly lifting as many as possible of the vast body of unemployed off the dole, and setting them to productive work without dislocating the existing mechanism of industry. It is put forward, not as good in itself, but as a means to an immediately imperative end. The policy of national economic development which has just been outlined is, on the contrary, a permanent measure designed to take, with every year, a growingly important place in the national economy. The object is not to keep men in the National Labour Corps, but to take them out of it as fast as work can be provided for them under more normal conditions. Its aim is to keep them fit and train them where necessary—and large-scale training schemes form a vital part of the whole plan—and to get real social value in return for their keep while they are displaced from the ordinary productive economy. As the policy of national development produces its effects, they will be gradually enabled to return to normal occupations—either those they have previously followed or new ones for which they have received training—and to settle down in the localities where the new industrialism is being built up. The number of men in the National Labour Corps should steadily decrease, as the number absorbed in new productive industries under normal conditions is successfully expanded.

The object of this double policy, let it be made quite plain, is to bring about a radical redistribution of the productive forces of British industry in the light of a changed and changing world economic situation. Private enterprise is too much entangled in the past to be capable of extricating itself from its present difficulties without strong and sustained State activity to help it. In especial, there is, under uncontrolled capitalist conditions, no effective link between new and old capital. The investor, seeking the most profitable outlet for his new money, does not as a rule consider at all the risk that old capital may be destroyed in vast amounts unless the help of his new capital is given to saving it. He can hardly do this even if, as an existing shareholder, he stands to lose more by the effacement of his past investments than he can possibly gain by skill in placing his new ones. For, if he, as an individual, invests in an old undertaking in the hope of retrieving the capital already sunk in it, he stands

the risk of throwing good money after bad unless enough other people do the same to make his new investment effective. A concern that needs £100,000 to put it on its feet and only gets £50,000 will in most cases be likely to add the £50,000 to its existing losses. The individual investor, therefore, simply has to let his old capital go without an effort to save it, usually discounting the loss by selling his shares and buying with the diminished proceeds other shares whose value has been already discounted by some other investor. He invests his new money where he thinks the best profit is to be made; and he is right from his own point of view, but wrong from the standpoint of society, which must therefore intervene in order to prevent the wholesale destruction of existing capital values capable of restoration by the application of fresh doses of capital.

An individual analogy may help here. Suppose the case, not of a joint-stock concern, but of a one-man business in which £20,000 has been sunk. This £20,000 is in danger of annihilation unless another £10,000 can be found to re-equip the business on modern lines. With the aid of this new money the business is likely to be worth from £20,000 to £25,000 as a going concern. Without it, the value will be that of the bricks and scrap iron contained in its plant—say a few thousands when all assets have been taken into account. The owner will without hesitation put the new £10,000 into his business, if he is fortunate enough to have the money, even though he could by investing it elsewhere make a far higher return on the £10,000 alone. He will do this, because his concern is to save his £20,000 as well as to find a remunerative outlet for his £10,000. But, if the £10,000 belongs to someone else, that someone will invest it where the return is greatest, and not where it will retrieve the greatest amount of someone else's existing capital from destruction. The national, or collective, point of view is, under these circumstances, simply not considered.

At present, a large part of Great Britain is in a situation which closely resembles the case we have just discussed. Take a mining village. If the pits close down, the capital sunk in them is simply lost, unless they close under normal conditions from the exhaustion of their seams, and their capital has been already amortised over a period of years and transferred elsewhere, as for example much amortised capital from old pits in Lancashire has

found its way into the anthracite coalfield in South Wales. But this is by no means the end of the losses. Unless alternative industries are developed in the same locality, the population must, in the end, move elsewhere. The houses built for them to live in, the shops that supplied their needs, the playgrounds, open spaces, streets, schools, cinemas, halls which served their community, the public utility services and transport facilities, the auxiliary industries which depended on the pits and the needs of the pit folk—all these are simply destroyed as sources of either wealth or welfare. This indirect destruction of capital is in many cases far greater than the direct annihilation of values that is more readily seen. It spreads a widening circle of loss and ruin, devastating the lives not only of the pitmen who lose their jobs, but of all whose means of livelihood depended on the needs of the doomed community. Nor, when we have weighed up all the economic losses, is the social loss to be ignored. The destruction of many of our pit villages has, to be sure, its compensations; but even the destruction of the sordid and ugly may bring with it sore human losses, especially if it is carried through with the ruthless lack of plan characteristic of the decay of economic communities under private capitalism.

The aim of Socialism and of a Government that takes its task seriously must be to reduce these economic and human losses to the minimum. It cannot prevent them altogether; for under the changed conditions much shifting of industry and much migration of people is inevitable. But it can greatly mitigate their effects, and carry through the indispensable changes with some approach to an ordered plan. It can, where possible, localise new industries where old ones have decayed; it can save and re-equip for remunerative operation enterprises which private capitalism would allow to waste away; and it can open up new avenues of useful employment and decent conditions of life for those who have to move to new areas. The doing of this demands, doubtless, big qualities of courage and statesmanship and, in the execution, a high degree of administrative efficiency. But are not these qualities present in abundance if only we have the courage to use them and to sweep away obsolete prejudices which stand in the way? By its determination in tackling the problem of unemployment any British Government of the next ten years will rightly be judged. There may be better ways—ways less open to

objection by capitalists and workers—than I have advanced in this book. If so, let us hear them. What is certain is that, in one way or another, the problem must be tackled, and the unemployment which is coming to be accepted among us as a thing of use and wont plucked up by the roots once and for all.

## CHAPTER V

### THE NEW CAPITALISM

'Rationalisation' and 'Scientific Management'—The gospel of 'industrial efficiency'—What does 'Rationalisation' mean?—Competition no longer extolled as the key to progress—Capitalist combination and its growth—The effects of war-time control—The workers urged to produce more and the capitalists less—The workers' reply to the demand for higher output—Effects of the post-war slump on Trade Unionism—Recent changes in productive technique and workshop practice—The decline of manual skill—Standardisation and its effects—Payment by results under the new conditions—The 'Americanisation' of industry—Mass-production certain to increase—Reaction of technical changes on skilled and less skilled workers and on their relations and relative wages—Craft Unionism largely obsolete—The increased transferability of labour—This weakens the workers' bargaining power—And reacts on the appeal of Trade Unionism—But it leads the workers to look more for political remedies—The future of strikes considered—The changed attitude of the worker to his job—Workshop discipline—A keener demand for leisure—Can Capitalism meet the workers' demands, and so outbid the Socialists?—This is the 'rationalisers' hope—The dilemma of Capitalism stated—Even if it can solve the riddle of production, can it solve the riddle of distribution too?—Capitalist restriction of output—The obsession of the 'limited market'—How coal and cotton met the slump—How and why both failed—The right policy must band purchasing power on what society can produce, and not 'ration' production within a limited purchasing power—Will 'Rationalisation' solve this problem?—Lord Melchett and the Trade Unions—'Left Wing' critics of the Trades Union Congress—The expediency of a general negotiation—A temporary accommodation needed—How a Labour Government could increase Labour's industrial bargaining power—What terms do the Trade Unions want to make?—Industrial Psychology and its uses—The need for a reorganisation of Trade Union machinery—'Rationalisation' as a challenge to Trade Unionism.

DURING the past few years a new word, or rather an old word in a new sense, has made its appearance in our economic vocabulary. We have taken to speaking of the 'rationalisation' of industry, and the new word has almost ousted the old phrase 'Scientific

Management', which had at first something of a similar connotation. For 'Scientific Management', whatever it became later on, and however the antics of some of its votaries made one think that the word 'scientific' must have been used in a purely Pickwickian sense, was originally in form at least an appeal that scientific principles should be applied to the work of industrial management. The administration of a factory or business, it was urged, should be regarded as an affair neither of rule of thumb nor of direct personal inspiration, but of positive and exact knowledge. Managers should be trained for their jobs, and trained on certain definite principles; and they in turn should train the workmen in the factory to perform their appointed tasks in accordance with rules prescribed as the result of an exact study of industrial processes and human psychology.

'Scientific Management' in practice soon shrank up, in the minds of most of its practitioners, into a theory of workshop management, pure and simple. It came to denote, for most people who studied it, certain particular methods of getting the highest possible output from the workers, and so reducing labour costs to the lowest possible point. In many instances, it dwindled down in practice into a series of dodges for increasing output by manipulating the methods of wage-payment, as in F. W. Taylor's extraordinary system of differential piece-rates, or the more complicated methods of remuneration associated with such names as Gantt and Harrington Emerson. The doctrine became discredited by this narrowing, especially as the parts of it which passed into current practice were as a rule intensely unpopular with the workers to whom they were applied. Time-study and motion-study, which can under proper control be made to yield real contributions to the lightening of labour, evoked only hatred when they were prostituted to the working out of increasingly complex systems of remuneration which often no one except their authors even professed to understand. The workers who had experience of the new methods usually dismissed them as merely new variants on the familiar devices of the premium bonus system and the rate-fixer—merely new ways of speeding up the pace of work until it became irksome almost beyond human endurance.

The doctrine had, however, other offshoots besides those which have come to be closely associated with its name. In



America it gave rise, via the gospel of 'efficiency' preached by Harrington Emerson and his colleagues, to the attempt to devise a specialised training for the various branches of industrial management—and 'especially for what is variously called 'Employment Management' or 'Personnel Administration'. It radiated out into the endeavours to discover some workable principles of vocational selection for various occupations—endeavours which are still very much in the experimental stage. And, in both America and Great Britain, it has gradually thrown off a more promising shoot in the half-science of industrial psychology. Much of the actual work of the industrial psychologists has been hitherto physiological rather than psychological; but the attempt, without direct reference to the questions of industrial remuneration to which the early 'scientific managers' practically confined their attention, to adjust the conditions of the job to the worker's human needs and reactions, has in it much of hope, as well as something of danger, for the industrial worker of the future.

'Rationalisation', like 'Scientific Management', sets out with the initial pretension of applying rational or scientific principles to the organisation of industry, but is inclined at present to direct its attention primarily to a different aspect of the question. It has, as we shall see, direct and highly important reactions on the life and conditions of the factory worker; but it is concerned less with the detailed technique of workshop management than with certain wider problems of business organisation—notably the standardisation of products, the specialisation of factories to particular products, and the linking up of different factories into larger economic units. It involves and includes the whole problem of the trustification or cartellisation of industries, the amalgamation of competing or complementary businesses with a view to cheaper and more efficient production, the improvement of marketing processes, and the attempt to control the market through allocation of spheres of influence, and through the regulation of prices and the concerted limitation of output. Rationalisation is still a vague word, covering a multitude of business projects; but its general drift is becoming clearer through the deeds, if not the words, of its leading exponents.

In the wider sphere, the most notable thing about rationalisation is the completeness of its denial of the most cherished

assumptions of nineteenth-century industrialism. It has thrown overboard with startling energy the old assumption of the beneficence of unregulated capitalist competition. The trusts in America, despite their vigorous growth and their defiance of legislation to check their victorious career, remained until quite lately in some degree spiritual outcasts, whose apologists found it necessary to excuse themselves with arguments that were half acceptances of the charges against them. These kept explaining that the trusts were not really half so powerful as they were supposed to be, that their control of prices was really very limited indeed, that the trust next door and not the trust that was being attacked at the moment was really the villain of the piece. The modern rationalisers, taking their cue from Germany, where the cartel form of organisation grew up with the countenance and encouragement of the State—and in certain instances with the State's coercive power at its back to enforce membership—have no such qualms. It is for them as axiomatic that industry stands in need of regulation as it was axiomatic for their predecessors that capitalistic combines were immoral conspiracies against the public, and uneconomic hindrances to the free play of the forces of supply and demand.

In Great Britain, though there were before the War some great trusts, such as the Coats and Lever combines, the Imperial Tobacco Company, and the Wallpaper Trust, and numerous price-fixing associations of varying degrees of formality and efficiency, the change in capitalist practice and opinion dates in the main from the War. In this, as in the other belligerent countries, the needs of war-time production compelled industries to organise, and the Government to do everything in its power to foster their organisation. Industry after industry developed a representative mechanism of its own, and in certain cases—the Wool and, to a less extent, the Cotton Control Board are obvious examples—the Government delegated to them highly important functions in the control of their industries, and armed them with a considerable amount of coercive power. Some of these extemporised organisations did not outlast the temporary need which had brought them to birth; but most of them either survived, or at least created among their members a habit of organisation which speedily took on new forms in the light of the post-war situation. During the short-lived price boom of 1919 and 1920, the new

capitalist associations made hay merrily, controlling prices and regulating output to their hearts' content, and mocking at the investigators who criticised their proceedings. The various 'Profiteering Committees' set up in order, if not to deal with them, at least to produce an illusion of governmental activity in the matter, were powerless to check their career. Then came the slump, and for the time being knocked a good many of the combines firmly on the head; for, founded on the assumption that their job was to exploit scarcity in a time of high prices, they did not know how to stand up to a condition of glutted markets and general stringency.

Speedily, however, the tendency to combination reasserted itself. The moral most frequently drawn from the depression of 1921 and the succeeding years was that the world was suffering from a redundancy of productive power, and that prosperity would be restored only if capitalism could learn how to keep in check the awful propensity for creating wealth in too great abundance. Projects for the concerted limitation of output became the order of the day, mingled with incitements to the workers to produce more. The lowering of costs through higher individual output, and the maintenance of prices through lower collective output, became the slogans of the new capitalism of post-war days. To the capitalist, there seemed to be no inconsistency between these two cries; but the worker was inclined to point out that, taken together, they plainly pointed to a great increase in unemployment. He therefore remained in a suspicious mood, regarding the development of capitalist combination with disfavour, and disinclined to increase his own output for fear of losing his job, or diminishing the available volume of employment.

The employer, of course, replied to these suspicions by urging that he could not sell his goods at all, especially in face of foreign competition, unless he could sell them cheap, and that higher individual output would be the means to a great extension of sales, and therefore to the provision of more employment. He did not mean, he said, to restrict production so much as to regulate it, in order to prevent large fluctuations in prices and demand, and to prevent cut-throat competition from sweeping away the possibility of either good profits or reasonable wages. He was ready to expand total output as fast as this could be

done with safety, and the key to expansion was in the workers' hands. If they would but co-operate with him in lowering costs, it would be possible for industry as a whole both to produce more and to sell more on favourable terms.

The workers in most cases remained unconvinced; but the force of circumstances was too much for them. The slump in trade swept away not only the abnormally high prices and profits of 1919 and 1920, but also in most industries the greater part of the workers' bargaining power. For Trade Unionism, a powerful instrument when times are good and labour scarce in relation to the demand, inevitably loses much of its strength in bad times. Unemployment means, not only acute competition between workers for jobs, but also diminished power of resistance owing to the exhaustion of Trade Union funds and the eating up of the worker's personal savings when his wages stop. Most of the unemployed, and some of the partially employed, tend to drop out of the Unions, finding it impossible or at least difficult to maintain their weekly contributions. And—most important of all—whereas in good times the closing down of a factory owing to a trade dispute means a serious loss of profits to the employer, when trade is bad he is often only too glad of an excuse for a temporary closing down, particularly if it extends to his competitors as well as his own business. The staying power of the workers in a strike or lock-out is greatly reduced in bad times; that of the employer is often very considerably strengthened. It is therefore common sense for the Trade Unions, at such times, to avoid stoppages if they possibly can, and to make terms by bargaining rather than attempt to defend their position by a trial of brute endurance.

The employers are, of course, perfectly well aware of this situation, and ready in most cases to take full advantage of it. Particularly if they desire to introduce changes in workshop organisation, a season of bad trade and unemployment offers them an exceedingly favourable opportunity. A proposal to extend working hours or to cut down wage-rates drastically over a whole industry may, even in bad times, provoke strong opposition, and lead to serious trouble and, perhaps, to intervention by the State. But workshop practices can in most industries be changed piecemeal, and even very drastic alterations, if they are skilfully managed, may be made without pushing the workers

involved to the point of a strike. No one change may appear to be vital in itself; and yet the cumulative effect of a whole series may be very great indeed. Each single change will probably involve directly only a small proportion of the workers employed; and the others, who are not affected at the moment, will be inclined to say that, in face of the unfavourable conditions, it is really not worth fighting about. The Trade Unions, moreover, engaged in trying to preserve by tactful bargaining as much as they can of the advantages already won nationally, are likely to look askance at small local strike-threats that may upset their national policy. Consequently, on one point after another, bodies of individual workmen are compelled or persuaded to give way; and it may be that fundamental changes in industrial relationships are carried through, by an accumulation of small alterations, without any change in national agreements or any clear consciousness, over the industry as a whole, of what is taking place.

Certainly, something like this has been occurring in Great Britain during the past few years. Quite apart from the drastic reductions in wage-rates made by national bargaining, there have been even more important changes in workshop practice, leading to fundamental modifications in industrial relationships. In the effort to reduce the costs of production, the employer has progressively modified the methods of production, and so changed the character of the worker's job as well as the conditions under which it is done. In especial, there has been a great change in the relationship between skilled and less skilled workers, based on a rapidly increasing standardisation of industrial processes. The typical factory to-day needs a good deal less highly skilled labour, specially trained by a long apprenticeship for a series of delicate manual operations, and a far larger proportion of semi-skilled machine-minders and routine executants, who can be taught to do their jobs with full efficiency in a comparatively short space of time. Indeed, while the skilled man preserves his indispensable place in the productive system, his work in it tends to contract as standardisation advances, and the new need of industry is rather for a vast mass of easily acquired machine-dexterity than for a high degree of specialised craftsmanship. It is a further significant fact, with a direct bearing on the future mobility of labour, that this dexterity, unlike the old skill, tends

to become more and more easily transferable from one machine-minding occupation to another.

British industry discovered the vast possibilities of standardisation during the War, when the manufacture of huge quantities of identical munitions enabled many industrial processes to be reduced to an unskilled routine, and carried out by any labour that happened to be available, practically without preliminary training. The change from the largely undifferentiated demands of war-time to the more diversified demands of a world at peace caused the greater part of the changes that had been introduced to be temporarily undone. Industry reverted largely to pre-war practices, and thus honoured in the letter the pledges given to the Trade Unions that the rules and customs forgone in the national interest during the War should be restored intact at its close. But the return to the old methods of production could not last; for the new processes and machines of war-time were clearly adaptable to meet many of the normal demands of the market, and promised to yield considerable economies in the costs of production. Especially in such trades as the making of cheap motor cars, gramophones (and, later, wireless apparatus), railway carriages and even locomotives, and all the simpler parts even of complicated machines, standardisation offered such prospects of cheapened production as employers could not be expected to ignore. At the same time, the lesson of mass-production spread rapidly to other industries which had hardly been affected by it during the War. The making of chocolates, cigarettes, boxes, leather goods, nails and screws, and a thousand other miscellaneous products of modern industrialism was seen to be no less susceptible than engineering processes to the application of the new methods.

The consequence has been that, although the words 'Scientific Management' are no longer often used, the worker finds himself a great deal more managed in his job than in pre-war days. More and more, the machine sets the pace, and he has to conform to it. More and more the machine determines precisely how the job is to be done, and converts the man into a fellow-automaton bound to its service. Nor does this apply to purely machine processes alone. Take, for example, the assembling of the parts of a cheap motor car. The modern factory achieves this by means of moving platforms, along which the work moves at a prescribed

pace, past a series of workers of whom each has his definite contribution to make to the collective process. A man must stay the pace, or go. He can no longer work at his own pace. The rapidity of work has become an integral part of the factory organisation.

This fact largely accounts for the decreasing emphasis on those parts of 'Scientific Management' which seemed overwhelmingly important to its earlier advocates. Their chief concern was to find means of inducing the individual workman to mend his pace; and the obvious way seemed to be the offer of special incentives to increased production. They devised, accordingly, innumerable systems of 'payment by results' designed to appeal to the workman's acquisitive instinct, and so induce him to deliver a higher output. The modern factory organiser is finding a more effective way. He binds the worker to the machine in such a fashion that he must conform to the pace set by the power-house. In one case after another, it is becoming unnecessary to offer the workman any individual inducement to increase his output, because his output is simply not under his control. With plenty of labour to choose from, the modern employment manager has merely to sack those who cannot stick the pace.

It is true that, while the worker as an individual tends to have less and less control over his own output, the workers in a shop still have often, as an organised group, a considerable amount of collective control. The machine sets the pace, but it must set it in accordance with what the average man in the shop is prepared to stand. The public opinion of the workshop counts, and it is often worth while to offer a collective inducement to increased output from the shop as a whole. Collective systems of 'payment by results' are therefore tending steadily to replace individual systems; for if the workers as a body stand to gain by higher production they will stick a hotter pace. The factories in which the new methods of production have gone furthest are therefore in some cases abandoning ordinary piece-work, and taking to time-rates of wages, supplemented by a collective bonus on the entire output of a co-operative group of workers, or even of the factory as a whole.

These new tendencies in the utilisation of labour have, of course, affected different industries in many different ways. The

account of them given above is in terms of manufacturing processes based on standardised machinery and designed to yield a standardised output. In the coal mines, or in the iron and steel industry, the same conditions do not apply, and the evolution of processes has been different. The modern coal mine uses an increasing quantity of machinery, not only for coal-cutting, but more especially for haulage and other auxiliary processes. It is turning the modern miner, from a pick-and-shovel expert, into a machine-minder; but it has not been able to carry mechanisation to anything like the lengths characteristic of standardised manufacture, or to set a uniform pace to which the miner has to conform. Piece-work of the old type is accordingly still the characteristic form of wage-payment in coal-getting, though in the industry as a whole the proportion of time-workers to piece-workers tends to increase as the auxiliary processes absorb a growing share of the total labour employed. In the iron and steel industry, where group work has long been the rule, the outstanding development of recent years is the diminution in the quantity of labour needed to produce a given product. The increased capacity of furnaces, and their greater efficiency in production, have caused a great economy in the labour employed without any radical change in the character of the labour process itself. Again, in the cotton industry, except where relatively unskilled ring-spinning has displaced the highly skilled labour of the mule-spinner in the production of the coarser counts, the character of the labour process has not been much altered. What has happened is that the machinery has been speeded up, and the worker called on to mind more machines, in the most up-to-date mills and sheds. The worker does what he used to do; but the power-house and the management make him do it faster.

This change in the methods of using labour is to be regarded not as a completed process, but as one that is going on at a steadily increasing pace. It is sometimes called the 'Americanisation' of British industry; and it is true that many of the most characteristic developments of modern mass-production have originated in the United States. The reason for this lies partly in the vastness of the American home market—within its tariff walls the largest free trade area in the world—and partly in the fact that American industrialism grew up amid a chronic scarcity of labour. This meant that high wages had to be paid,



and that it was vital to get the last ounce of production from the worker in exchange for them. The American market has been, moreover, in comparison with the British, highly uniform, and this has made it easy to push standardisation of products to the furthest technical limits. Great Britain, producing for a very diversified world market and usually finding her greatest advantage in specialisation on the finest types of product, has turned out as a rule not huge quantities of precisely uniform products, but a wide variety of goods, high in quality and price, of which only small amounts can be sold.

It was long held that this difference of market conditions would effectively prevent any wide adoption of mass methods of production in this country. Even now, it places very definite limits to the extent of 'Americanisation'. But it has been increasingly realised that, while it is vital for us to continue and extend our specialisation in high-quality goods, there is a very wide range of products in which the economy of mass-production holds good for Great Britain as well as for the United States. We have not a home market comparable with America's, but we have a very big one, and it is capable of great expansion. We have no Mr. Ford, but we have Mr. Morris: and Cowley, I understand, is not very different from Detroit on a smaller scale.

There is not the smallest doubt that mass-production and standardisation will continue to expand in Great Britain, and to do so at an increasing rate. This means that more and more workers will pass under the new discipline of industry. They will have less control than of old over the method of performing their jobs, less control over the pace at which they work, less to think about beyond the sustained attention and strain involved in keeping on slogging away. They will need less skill, and more slickness, less specialised training and more drill. They will be far more readily transferable from job to job; and therefore it will be far harder for any group among them, no matter how strongly organised, to establish or maintain for itself, through Trade Union bargaining, a specially good or privileged position. The logic of the machine is overtaking the craftsman fast; and that logic is ruthless of his vested claims and traditions.

In the transitions that have already taken place, there have been many occasions on which skilled and less skilled workers have, more or less openly, been on opposite sides. For the skilled

workman has been an instinctive conservative, seeking to maintain for his craft the preferential wages and conditions which the development of industrial technique has threatened to sweep away. He has been disposed to treat all below him in status as mere 'labourers', and to turn a blind eye to the rapid growth of a semi-skilled grade of labour capable of performing, under the changed conditions, much of the work which the craftsman regards as his prerogative. He has been, quite correctly, fearful of unemployment for himself and his fellow-craftsmen as a result of their displacement by less skilled workers; and he has fought to preserve, even when he knew the semi-skilled man could do the work as readily as he, the 'right' to the machine or the process. Inevitably, he has fought a losing battle; for bad trade and changing technique have co-operated to place him at a bargaining disadvantage, and, foot by foot, he is being compelled to give way.

The less skilled workers, on the other hand, conscious of exclusion from many jobs they could do as well as the craftsman, and resentful of his attitude of superiority, have been often disposed to back up the employers' efforts to break down the craft monopolies. Even when their Trade Unions have joined forces with the craftsmen, for fear of seeming to be on the employers' side, it has been impossible to prevent the individual workman who sees a prospect of a better job from seizing his chance when it comes, whatever the displaced craftsman may say. In cases where skilled and less skilled workers are organised together in the same Unions—on the railways, for example—the whole body has been brought round perforce to a view which largely recognises the less skilled workers' claims. Where, as in the engineering industry, skilled and less skilled are mainly in separate Unions, there has been plenty of friction; but bad trade has hastened the victory of the less skilled. Even the building industry, still mainly unmechanical and the home of the craftsman who still works largely with tools and not machines, has begun of late to experience rude shocks from the introduction of standardised methods of production.

Any Labour or Socialist policy that fails to take full account of these changes will lead nowhere. Craft Unionism, as a dominant form of economic organisation for the workers, is played out. And equally any political party that bases its industrial programme largely on obsolete forms of Trade Union policy

will fail either to solve the economic problem or to appeal to the working class that is growing up under the new conditions. For instance, as we shall see later, the entire demand for 'workers' control' in industry has now to be reconsidered and reinterpreted in the light of the changed methods of production.

For the moment, however, I am concerned not with this aspect of the question, but with the reactions of the new technique of production on the economic situation as a whole. The 'rationalisation' of industry, in this particular sphere of its operation, is steadily increasing year by year the physical productivity of labour, and is at the same time creating a working class far more homogeneous, far more easily transferable not only from job to job but also from industry to industry, far more used to a rigid factory discipline and a set pace of work, and far less in need to give any thought to its job outside working hours than the generation that is passing away. How are these changes likely to react on capitalism and on the production and distribution of wealth?

Take first one relatively simple point—the increased transferability of labour.<sup>1</sup> This, it may be urged, increases the worker's bargaining power, by enabling him to shift more readily from a depressed to a prosperous trade. But it also increases immensely the employer's range of choice. Given a relatively small nucleus of skilled workers, he can recruit the rest of his labour anywhere. The existing factory, doubtless, cannot be moved, and its owner, unless he scraps it, must recruit his workers mainly within a given locality. But, even so, he has a wider range of choice within that locality. Moreover, under the new conditions, plant and machinery are not built to last so long as of old. They are more readily scrapped, and it is often easier for the factory to move to a new area in search of cheap and docile labour than for workers to move in search of employment at the cost of severing social

<sup>1</sup> I am, of course, speaking here of the transferability of workers from trade to trade, and not from locality to locality. Mobility from one area to another may help, as well as hamper, working-class bargaining power. It too is, however, being used at present, in the form of 'industrial transference', so as to break down wage standards. Transferred miners and others are being sent to jobs at less than the standard rates for these jobs, despite the protests of the Trade Unions affected. This is, of course, an instance of transferability both from trade to trade and from district to district. In other circumstances, mobility from place to place may help the worker to migrate in search of higher wages and better conditions of labour.

and family ties. In any case, the new factory is able to go where it likes; and nowadays it tends to go to reservoirs of cheap and docile, rather than of highly skilled, labour. That is one important cause of the spreading of industry into new areas, and the growing desolation of certain of the older industrial districts. For skilled labour is usually organised labour. It has not yet fallen, like the handloom weavers, to be cheap; and, having the habit of organisation, it is not docile.

Transferability, indeed, makes to-day far more in the employer's favour than against him. For it compels the workers, if they are to stand out for good conditions, greatly to extend their front. It becomes far harder for one well-organised group to ignore the disorganisation around it and, safe in its monopoly, insist on a minimum standard of its own. The labour market becomes a great free trade area, and the Ricardian assumptions about wages, discredited through the rise of strong organised bodies of skilled craftsmen in the nineteenth century, became far more nearly true. Labour is in process of being made one against its own will; but the process of unification, so far from making effective organisation easier, immensely increases its difficulty. One Big Union may be right in theory; but it is infernally hard to organise.

Homogeneity increases. Workers in different trades and grades become more alike. Differences of work are narrowed, and differences of dress, habit, education, and speech grow narrower with them. Even the miner begins to lose his distinctive appearance and habit of mind in the newer coalfields. How will this change react on organisation, on attitude, and on bargaining power? On Trade Unionism it is certain to react unfavourably for the time. For the strongest and stablest Trade Unions drew a great deal of their strength from their very narrowness. The craft bond, or the bond of common occupation, held them more tightly than any idea of class solidarity. If this bond is relaxed, Trade Unionism will be weakened, at least until it has been painfully rebuilt on new foundations. Probably it will be weakened permanently in its hold on the worker's mind; for the new technique of industry will put far less distinctive marks on the worker's personality than the old craft system. Something of what the organised worker gave to Trade Unionism in the past he will now bestow elsewhere.

But the workman, if he is less easy to get into a Trade Union, or at least into active interest in his Union's affairs, will probably be easier to organise politically. For politics appeals to him mainly as a man, or as a man of a particular class, and not as miner, or spinner, or engineer. The workman of the future is likely, I think, to be more politically, and less industrially, minded.

The discipline of industry becomes stricter as the individual skill of the workers decreases in importance, and speed and dexterity usurp its place. What will this change effect? Will it make the worker more docile, in the sense that he will be more ready to tolerate a continuance of his present status in industry, and less inclined to make trouble for the employer? Will there be less strikes, even if there are as many lock-outs?

Less readiness to strike on the smaller issues I think there will be. For strikes affecting one particular shop or area in especial arise most readily out of individual grievances, and these tend to be commonest where the workshop life is varying and eventful, rather than where it is reduced to a regular and monotonous routine. In one sense there may be far more to strike about in the modern factory; but it will be a reason for striking that arises every day, and not on one particular day more than others. The new grievance may be more resented; but it will be obviously harder to remedy, and will lead to sullenness rather than a flare-up of tempers, and a walk-out of the shop. Moreover, the conditions for successful strike action will have become definitely less favourable; for the modern factory, as it depends less on skill, will be harder to paralyse than factories have been in the past. Even the railwaymen found in 1926 that their indispensability was threatened, and their strike efficiency greatly lessened, by the development of motor transport.

It is, however, one thing to predict less strikes, and quite another to postulate a greater readiness on the worker's part to accept his present place in the social or industrial order. If he is to work under the new conditions, he will be likely to demand a greater share in the fruits of industry, and, if the strike weapon tends to break in his hands, he will take the more readily to political remedies for his grievances. He will also, in all probability, learn from the new conditions of his work to act in politics in a more disciplined fashion, and thus become more formidable as a political power. He will be readier to take orders, when they

are the orders that promise to minister to his well-being. This readiness will have all manner of important reactions on the ordering of the new society, and some of these will be discussed at a later stage, especially in their relation to the 'control of industry' under Socialist conditions. Here we can only note their existence in passing.

The workman, under the new industrial regime, will be far less interested in his work. It will keep him hard at it during his hours of labour; but even then it will not occupy his mind, though it may distract him from thinking consciously or consecutively of other things. When once, however, he is out of the factory, he will put off his work completely, unless he belongs to the administrative hierarchy, or is one of the dwindling force of highly skilled manual workers whose occupations really interest them. The ordinary worker will want to get away from his job, and from thinking about it—to be, in his leisure hours, a man, and not a railwayman or a boilermaker. This is one great reason why he will be harder to interest actively in Trade Unionism. But the effect of the change will not be mainly destructive. The workman will value his leisure more, and demand more of it; and this will serve to expand his claims on life, and sharpen his desire for a higher standard of real wages. The circle of his enjoyments will become wider, and his wants will grow more clamant for satisfaction. If he puts up with the discipline of the modern factory, this will be only because he sees in it the necessary means to the fuller life which he demands.

The quality of the new enjoyments that the workman will require of life may well be open to criticism from the social standpoint. But this is, for the purpose of the present argument, neither here nor there. The point is that he will demand them, and that the demand will determine his industrial and political attitude far more than anything he likes or dislikes in the factory conditions themselves.

If capitalism can give the ordinary workman the means to these enjoyments, by assuring to him a greatly improved, and progressively improving, standard of life, it is likely to survive, no matter what assaults Socialists, or any other body of heretics, may make against it. That it could at any rate offer an improving standard was the great strength of Victorian capitalism. That the present century in its first decade failed to continue the

advance was the greatest cause of the growth of Socialism. That capitalism to-day is, on the whole, seeking to beat down wages and conditions or is, at the very best, failing to improve them, is a sure sign of its malady. The question is whether, by drastic internal reorganisation and the development of its productive forces on the new lines, capitalism can retrieve the situation for itself, and 'dish' the Socialists by outbidding them in its offer of better conditions and a fuller life for the worker. That it can do this is presumably the faith of men like Lord Melchett, the imaginative protagonists of the new capitalism. The average employer does not think in these terms. For him the worker is still not a problem in psychology, but a factor in the cost of production that has to be kept down if his profits are to be assured.

Capitalism's difficulty in outbidding the Socialists is not hard to discover. The new industrialism may be able to master the secret of production. It may be able to produce each unit of commodity at a lessened, and continually falling, cost in human effort, and so to lower the labour cost of production in reality and not merely by cutting down wages. But that will not profit it unless it can find means to use the productive capacity that is in its hands. What if, the more each worker produces, the more other workers he throws out of employment? What if the world under Capitalism finds itself unable to devise means of distributing for consumption the commodities it is able to produce? If that is so, the 'surplus' commodities will not be produced at all. The productivity will be there; but it will perish unused. Society will have to support a great body of unemployed, and each new technical victory of science will but serve to add to their number. For their support, toll—increasing toll—will have to be levied on those who are at work; and the toll will eat up the surplus which is needed if capitalism is to fulfil its promises of a higher standard of living for those whom it employs. For the employed must pay for the unemployed: there is no other source from which their maintenance can come.

This is the capitalist dilemma, and how it obsesses the capitalists is clearly heard in the confusion of views which now reigns in the capitalist world. One set of employers cuts wages desperately in order to expand output by selling at lower prices, while another calls no less desperately for concerted restriction

of output in order to keep prices up. Neither coal-owners, by the former policy, nor cotton-masters, by the latter, have succeeded in rescuing their industries from terrible loss and depression. In a few industries, it is true, where great technical advances have enabled costs and prices to be drastically reduced, new markets have been tapped by bringing luxury commodities within the purchasing power of new social classes; and capitalism in these industries has reaped its reward, and is confident of the future. In a few others, the discovery of new products, such as artificial silk, or of new uses for old products, such as oil, has caused a vast expansion of demand, and so created similar conditions of prosperity. But the staple industries are still caught in the tangle. They could readily produce more; but could they sell it, except at prices which would be unremunerative despite the drop in costs which greater production would in most cases connote?

It is because of this obsession of the 'limited market' that the rationalisation of industry, when it is not concerned with the changes in workshop organisation discussed above, turns more and more to plans for the concerted limitation of output. Towards this policy capitalism, in one country after another, is at present steadily and rapidly moving. The British coal-owners, dominated by the old individualistic ideas, tried first of all to face the depression in their trade by bringing down prices in the hope of recapturing lost markets and creating new ones. In order to do this, they beat down wages and lengthened working hours—driven to this the more because the coal industry, even if it would be among the most responsive in the long run to a well-devised policy of 'rationalisation', is one which cannot be rapidly or easily revolutionised by a new technique of production. They had not the advantages of the machine industries in lowering costs by increasing the efficiency of labour instead of lowering its remuneration. New collieries can indeed start with a productive technique far ahead of their older rivals. But the old colliery is both harder to adapt, and harder and more costly to scrap, than the old factory. Wage-cutting and the lengthening of hours seemed, to the coal-owners, obviously the lines of less resistance. This is not to say that the way they took was the only way in which they could have tackled the problem; but it was the easiest for the owners to attempt, and naturally they tried it first.



It has by this time received a full trial, and it is admittedly a dismal failure. For, as we have seen, the cutting of coal prices was not followed by any such increase in demand as the owners had hoped. The industry found that it had made the worst of both worlds. It was selling far too little coal; and it was getting far too little for it. And this was the situation not in Great Britain alone, but in every important coal-producing country—even the prosperous United States.

Slowly indeed, the coal-owners of Great Britain are now learning to discard some of their individualism, and to act perforce together. Their new policy is that which has been throughout urged upon them by the 'rationalisers'—the concerted limitation of output. They have begun half-heartedly, with their district sales arrangements in most of the principal coalfields, and it looks as if they will soon attempt some national form of restriction, with a view to an international limitation of coal output throughout Europe at a later stage. Will this policy be any improvement on the other? The earlier policy meant low wages, long hours, and cut-throat competition; and it did not succeed even so in preventing widespread unemployment. The new policy looks like involving still more unemployment, without making any substantial contribution to the raising of wages.

In the cotton trade, on the other hand, though it is hardly less individualistic than the coal industry, the existence of a long tradition of meeting trade depressions by working short time caused the concerted restriction of output to be the first method adopted for making the post-war slump. Wages were cut, indeed, but not so sensationally as in the coal mines. In the main, Lancashire's effort was to maintain prices by the restriction of supply. That this policy, too, has failed, the present position of the cotton trade plainly shows. Its dependence for most of its sales on overseas markets undoubtedly created for it special difficulties, to which reference has been made in an earlier chapter; but anyone seeking a complete exposure of the futility of mere restriction of output as a policy for meeting any prolonged depression cannot do better than study the history of the cotton industry during the past few years.

The more intelligent rationalisers are, of course, fully alive to these failures. They are well aware that mere restriction of output necessarily defeats its own ends. It destroys the home market

instead of stimulating it; for unemployed workers are poor customers, and even what they have to spend is necessarily subtracted from other incomes. Moreover, in so far as it keeps up prices, it calls into being fresh competition from outside the area of restriction, and so in the long run brings prices down even further than they would have fallen if no restriction had been imposed. The history of the Stephenson rubber restriction scheme in Malaya, and of its consequences in immensely stimulating cultivation in the uncontrolled Dutch East Indies, is an excellent example of the long-run effects of attempting to hold up prices merely by the restriction of supply. Even world monopoly would not be proof against failure in such a case unless the product restricted were indispensable, inelastic in demand, and immune from substitution by any other product. Such cases are fortunately rare.

The 'rationaliser' will insist that regulation of output must have the object rather of evening out the flow than of permanently restricting the supply of the controlled commodity, and that it must be accompanied by other measures. It must be so used as to serve as a wall to keep out the flood while the new reservoirs are in the making. Behind its protection, the firms engaged in the industry must busy themselves in improving their productive processes, bringing their plant up to date, amalgamating into more efficient business units, shutting down obsolete plants and expanding those able to supply at the lowest costs, promoting specialisation of particular plants on a narrower group of commodities, in order to get the full advantages of mass production, and, in every way, seeking to lower their supply prices in order to be able safely to expand their supply. The assumption behind the policy, in this more enlightened form, is that the present limitation of the market is due to high prices, and that demand is elastic and will respond to their lowering. In the minds of the most enlightened capitalist advocates, it is further recognised that this elasticity depends on the payment of high real wages, because the power to consume is also generated in the course of the productive process.

The trouble about this policy is not that it is wrong, but that it is beyond the power of capitalism to achieve. For, apart from the problems of the world market discussed in an earlier chapter, capitalism in its new rationalised form is tending to destroy pur-

chasing power in the very process of creating additional means to its satisfaction. Even America, despite its prosperity, is not free from an unemployment problem which many attribute to this cause. In its search for an expanding home market to be reached through lowered human costs of production, it is squeezing out redundant labour so fast as to restrict more and more the market which it sets out to satisfy. This tendency has been hitherto largely concealed from view by the presence of other causes making for abnormal business prosperity, and also probably, in some part, by the mortgaging of future earnings through the instalment system. But it is already making its appearance on the surface of American life; and, by whatever new expedients it may again be temporarily checked, it is not easy to see how its recurrence in increasingly serious forms is to be avoided. In the case of Great Britain, the position is far more serious. For we depend far more largely on certain export trades the demand for whose products has shown itself in recent years to be singularly inelastic. All the more disastrous to Great Britain, under these conditions, is any policy that lowers purchasing power, and so restricts demand, at home.

This nemesis, I have suggested, awaits any economic policy that, under modern conditions, begins at the wrong end. It is fatal, in the modern world, to make the possession of purchasing power conditional on the ability to find employment, and to keep those who cannot find it alive in idleness out of the product of those who can. The only possible course for a well-ordered society is to begin with the decision that all shall be employed in useful work and that all shall enjoy the purchasing power wherewith to buy the entire product of which their associated labour is capable. The amount of this product can always be deliberately reduced by a collective decision to work less hard—for example, by decreasing the hours of labour—and any such decision will, of course, involve a corresponding reduction in purchasing power. But the vital thing is that the purchasing power distributed in society should be measured in accordance with the productive capacity of the community, and not left to depend on the actual production secured by the free play of the forces of supply and demand.

I do not pretend that it is easy to work this principle out in practice, or that to make the transition from a capitalist to a

Socialist economy is an easy task. This entire book is concerned with the means of effecting it; and I trust I have made it clear that the problem will not be solved readily or at once. But my point here is that capitalist rationalisation, working along its present lines, holds out no hope of a solution, because it can only reduce costs by dispensing with labour, and because this labour, deprived of its independent source of income, ceases to be effective in the market as a buyer, and thus defeats the aim of the reduction in costs which has been achieved. If capitalism could dump its surplus products *ad infinitum* in foreign markets at a good profit, there would be a way of escape from the dilemma. But we have seen that it cannot. It is therefore driven back upon the home market; and there it defeats itself and creates around it a desolation of unemployment and human decay.

They make a solitude, and call it Industrial Peace. Lord Melchett and his colleagues who have been negotiating with the General Council of the Trades Union Congress for a new regime of peace in industry are among the most enlightened of their class, and may be credited with recognising that, unless they can give the ordinary worker under capitalism an improved standard of life, the system in which they believe is doomed to destruction. They know that, for the moment, the Trade Unions are down and out; but instead of attempting, like many other capitalists, to seize the opportunity of stamping on their faces they have taken, from their own point of view, the wiser course of seeking to come to terms with them. For, although Trade Unionism has been greatly weakened, it is still a very considerable power, and its obstruction in particular can be a most formidable obstacle to the rapid realisation of the aims of the capitalist 'rationalisers'. Moreover, if enlightened capitalism could but get the Trade Unions on its side, it would not merely have removed serious sources of friction in the industrial field, but would also have administered a most effective set-back to the forces of political Socialism. Trade Unionism might become, in some measure, a conservative force, and be detached from its allegiance to the preachers of a new economic and social order.

The fear that this may happen is doubtless at the back of the barely articulate protests against 'Mondism' which have been made by Mr. A. J. Cook and other leaders of the Trade Union Left Wing. They fear the honeyed gutturals of Lord Melchett

more than the bellowing of less intelligent employers that wages must come down. In this they are right. If anything can rejuvenate the capitalist system, Lord Melchett and his colleagues are the men for the job.

But not even 'Mondism' can get away from the dilemma that has been described, or find any way of setting the unemployed to work. And, in any case, it is foolish to refuse to talk to a man because you are afraid of him. If you do, he will simply talk over your head to those whom you are supposed to represent, and, if he has something worth saying to tell them, they will listen even if you refuse to do so. You will merely forfeit your own leadership over your followers, and betray by your fears an uneasy consciousness that they might, if they listened to the other fellow, like his style as a preacher better than yours. It is the fear that Capitalism may have, after all, the means of retrieving the situation, that goes far to account for the hostility of some fervent anti-capitalists to the 'Mond parleys'.

Obviously, the sensible course is to hear what Lord Melchett has to say, and to confront him in reply with a few simple questions. Does he know how to get the unemployed back to work? Is he prepared to agree that the provision of useful work for all shall be the first postulate of the economic order? Is he ready to aid the State in assuming any coercive powers over capitalism that may be necessary to achieve this aim? Can he assure to the workers, if they co-operate in 'rationalising' industry, a higher standard of life and leisure, without thrusting out of work a growing mass of redundant labour? These questions must be put publicly, and publicly debated with the advocates of capitalist 'rationalisation'. But, even if, on these and other major points of economic policy, the representatives of Capital and Labour agree to differ, it does not follow that nothing can come of their talking matters over. Every Trade Union talks matters over constantly with the particular body of employers with which it has to deal; and no one suggests that the Union is selling the pass because it does this. Indeed, the demand for 'recognition' by the employers, that is, for the right to talk things over with them and come to agreement on some things while differing upon others, has been, for the past century, the steadiest and most persistent of all Trade Union demands. Why boggle now at talking things over with Lord Melchett?

There are, indeed, the best of reasons for wishing to talk things over. Capitalism is not going to perish to-morrow, and, till it does, the workers have to live on terms with it. This is a commonplace on which every Trade Union acts in its separate relations with its own body of employers. But the evolution of modern industrialism, as we have seen, is more and more making the problem of Capital and Labour a single problem, which cannot be isolated trade by trade or industry by industry, but must be dealt with as a whole. It follows that the forms and methods of collective bargaining must change with the changing situation. We have had our 'General Strike' as one example of the change; and now we must have our general negotiation. For not even the strongest opponent of 'Mondism', I suppose, would be fool enough to prefer another General Strike just now. Or, if he did, he would have the pleasure of conducting it all by himself, and being his own rank and file into the bargain.

But, say the objectors, 'Mondism' is not a general negotiation, because Lord Melchett and his colleagues represent nobody, but have been acting in their purely individual capacities. Would the critics really have liked it any better if, in accordance with the proposed scheme for a National Industrial Council, the Mond group of employers had been replaced by the National Confederation of Employers' Organisation and the Federation of British Industries? If so, that is only because they hope the collective stupidity of massed capital would avail to bring the meeting to naught, and not because they are really worried about the representative character of the recent parleys.

A general negotiation is necessary, in order to work out a *temporary* adjustment of a problem which affects not one industry only, but many industries in different ways and degrees. At present, let it be admitted, the Trade Unions are compelled to bargain with both hands tied behind their backs. They cannot present a really aggressive front, because they are conscious of the weakness brought upon them by the prolonged depression, and well aware that the employers are just as conscious of it as they. This is an excellent reason for walking warily, and playing for time; but it is a reason for talking rather than for refusing to talk. A Trade Union seldom refuses to negotiate when it knows its economic position is weak—it negotiates the more readily.

But this is precisely the situation in which the Trade Union movement as a whole is placed to-day.

The way of escape from this situation is to place a Labour Government in power. Even the minority Labour Government of 1924, despite its lack of power, availed, while it lasted, to bring a different note into industrial relationships. Its mere presence in office availed to check the fall in wages, and to make employers readier to come to terms. It helped the miners to negotiate by far the most favourable agreement they have had since the slump began, and arrested for the time many projected attacks on labour standards and conditions. The employers did not want to have the Government—even a minority Government—intervening against them in industrial disputes.

A Labour Government with a majority at its back would be in a far stronger position. It would be an immense bargaining asset in the hands of the Trade Unions. It would not, to be sure, enable them to get more than a pint out of a pint pot; but it would help them to avoid being put off with half a pint. In view of the possibility of such a Government coming before long to power, it would be the height of folly for the Trade Unions to tie themselves up just now to any permanent settlement arising out of Lord Melchett's overtures. They are wise to meet the representatives of the new capitalism, to talk things over, and to arrange purely temporary compromises. They would be most unwise to tie their hands against using the opportunities with which the return of a Labour Government would present them.

But what terms do they want to make? This is a question on which they will have to make up their minds. A policy of mere opposition to capitalist rationalisation will carry them nowhere. Nor will a mere attempt to ignore its existence; for every day it is penetrating more deeply into industry, and bringing the lives of the workers more firmly under its control. The Trade Unions have to face up to the question of their attitude to the new productive methods, to the concerted regulation of output, to business amalgamations, to the formation of selling syndicates, cartels, and trusts, to the new technique of industrial management. They will have to decide whether to obstruct, by insisting as far as they can on the maintenance of old rules and customs, the new forms of workshop management, or whether to seek, while

accepting the broad changes as unavoidable, to influence their consequences by participating in their control. The view taken in this chapter is that, in face of the over-supply of labour, the policy of mere obstruction is, in general, unworkable, though it may succeed here or there in a particular case. The new methods will come in, whether the Trade Unions obstruct them or not; and the danger is that, in confining itself to obstruction, Trade Unionism may forfeit the power to exert any effective control under the new conditions.

The question of workshop management is, at this point, of peculiar importance. The new methods of production may be so applied as, in increasing the productivity of labour, to make the worker's life a hell of overtime, or monotony, or, more likely, of both together. But need they be so applied? the same scientific knowledge which is revolutionising productive methods has much to say, if any will listen, about possible methods of lightening labour without diminishing, and often while greatly increasing, its efficiency. Industrial psychology can be a good servant to Labour as well as Capital, if Labour will but attend to it and take its proposals seriously. The negotiators of the new Trade Unionism should have the lessons of Industrial Psychology in the forefront of their consciousness. They should have psychological experts of their own behind them, to give skilled advice on all plans for increasing output which are mooted by business firms. The Trade Unions should be alert to discover, and force upon the employers' notice, ways of improving output which will make toil easier and less irksome, and methods of counteracting any evil effects of schemes which employers have introduced or proposed. The new Trade Unionism cannot afford to be unscientific or to trust to the mother-wit of its leaders in the complex problems of modern industrial negotiation.

For the most part, questions of this sort will have to be thrashed out industry by industry, or even factory by factory. But there are broad general questions underlying the particular cases; and these are well suited to collective discussion between the representatives of Capital and Labour as a whole. To get the capitalist to accept the principle that the independent experts of the Trade Unions shall have the right of access and inspection wherever methods of production raise points of controversy is fully as important as to secure for independent auditors the right



of access to books of account—a principle for which the miners in particular have put up a stiff fight. That Trade Unionism is not at present equipped to undertake these functions does not do away with their necessity. Even the far weaker Trade Unions of America, confronted longer with the situation which our Unions have now to face, have recognised the necessity for putting against the expertness of the employer and his agents an equivalent expertness of their own. The Trade Union official, as a Jack-of-all-trades, expected to be equally effective as revivalist orator, office administrator, cross-table negotiator or tribunal advocate, and expert in industrial processes, has had his day.

The business of Trade Unionism is to adapt its machinery to the needs of the new industrial era. I have given reasons for supposing that the Trade Unions will not for some time to come, under the new conditions, exert so powerful an influence over the lives of their members as of old. But this does not diminish the need for making them as efficient as possible. Indeed, it becomes the more necessary to improve their quality, because they will have to live in future less on loyalties, and more on a basis of services rendered. They will have to be plainly worth their keep to the ordinary man; but they cannot be this unless they help him to stand up to the everyday problems of his life in the workshop. Trade Union leaders above all will need to be realists, if they are to have followers. It is the obsolescence of much Trade Union machinery to-day, quite as much as the prevalence of unemployment, that is responsible for the weakness of Trade Unionism. The 'Mond Conferences' will be worth while, if they help to wake the Unions up to a sense of the situation with which they have to deal.

Capitalist rationalisation, then, presents a challenge to Trade Unionism. And it is also a challenge to political Labour. For if, as I have argued, Capitalism is caught up in a fatal dilemma, knowing how to increase productivity, but helpless to raise production because it cannot develop without destroying its own market in its advance, it is left for Socialists to show that they can discover a way out of the present impasse of the industrial system. I have dealt, in the preceding chapter, with one aspect of this problem—the positive and immediate steps to be taken for the prevention of unemployment and the stimulation of new industrial developments. But this, clearly, is only a part of the

problem. It remains to discover what shall be done with the great basic industries, for whose troubles capitalism seems wholly incapable of devising a remedy. It remains, after discussing the technique of the new capitalism, to discuss the possibilities of an alternative technique—the technique of socialisation. Again, this will be argued, not in general terms, but in relation to the immediate problems of the next few years, and in particular, to the action which a Labour Government ought to take during its first few years of office. For it is evidently easier to criticise capitalism than to devise means of replacing it; and the difficulty of passing to a new economic and social order is likely to be at its greatest in the early stages of the transition. To this problem—to the immediate possibilities and methods of socialisation—we must shortly turn our attention. But there is first something further to be said of the new capitalism as it affects, not the worker directly, but the broad character of the processes of production, and the attitude of society towards them.

## CHAPTER VI

### RATIONALISATION

Rationalisation further considered—Can it raise the working-class standard of life?—The experience of Germany and America—The displacement of labour by mechanisation—Why rationalisation is inevitable—But unlikely to advance very fast—The attitude of British employers—Lord Melchett's policy—The legal position of combines in Great Britain—And its effect on the forms of industrial combination—Should the law be amended?—Instability of certain forms of combination—Does it benefit the consumer?—Probable tendency of capitalist policy—Breakdown of divisions between industries—Need for State control of combines and State action to regulate their membership and policy.

It has been suggested in the foregoing chapter that the 'rationalisation' of industry along capitalist lines offers no remedy for the present disease of our economic system. It breaks down because, while it might succeed in improving very greatly the efficiency of production, it is doomed to fail hopelessly in solving the problem of distribution. It might succeed in lowering substantially the cost of producing each unit of the national output; but it would only find itself unable to make use of the great new productive power of which it had become the master. For the problem of production cannot be solved unless the problem of distribution is solved with it; and the lowering of the unit cost of production, unaccompanied by a pouring of fresh purchasing power into the pockets of the consumers, will only mean a more determined policy of restricting output, and a widening circle of unemployment.

The advocates of rationalisation commonly urge that this difficulty can be avoided by raising wages as output expands, so as to give the workers some, but not all, of the benefit of the greater efficiency of production. By this method, they suggest, the market will be widened, output enabled to expand at a

remunerative price, and those thrown out of work in the initial stages of rationalisation quickly brought back into employment either in their old trades or in others stimulated by the growth of demand. It is claimed that this has been the fruit of the measures of rationalisation applied in Germany during the past few years, and that there the unemployment which accompanied the earlier stages of the process has been progressively reduced. It does not, however, appear that Germany has by any means solved her unemployment problem, or that the German employers are at all ready to share the fruits of rationalisation with the workers in the form of higher wages and better conditions. There has been acute trouble in Germany of late over the division of the product of industry; and, as I write, a great lock-out of the Ruhr metal-workers, proclaimed by the employers in opposition to an arbitration award conceding higher wages, has only just come to an end. Let it be granted that real wages in Germany are a good deal better to-day than they were a few years ago, when the policy of rationalisation was seriously begun. It has to be remembered that Germany was then emerging from a period of fantastic currency inflation in the course of which real wages had been pressed down to starvation point, and from an industrial dislocation seriously accentuated by the French occupation of the Ruhr. Under these circumstances, the wage comparison is quite inconclusive. What is apparent is that in rationalised Germany to-day there exists both a good deal of unemployment and a quite unsettled struggle over the appropriation of the proceeds of industry.

Nor can the case of America be fairly quoted in support of the rationalisers' contention. It is true that in the United States the earnings of the skilled workers have been rising, and production has been greatly expanded without leading to any commercial crisis. It is true that American unemployment, while it exists on a considerable scale, does not constitute a social problem at all commensurable with our own. But a good many observers hold that the level of real wages has been actually falling in the United States for the less skilled workers; and, whatever may be the truth upon this point, the size and balance of the American home market make the problem there quite different from ours. The British rationaliser in the basic industries, working along capitalist lines, looks inevitably to foreign

markets as the main outlet for his potential fresh production; and there is no evidence at all that foreign demand is elastic enough to allow more to be sold at prices which will yield the British worker a higher standard of life and therefore a higher purchasing power.

Indeed, the German analogy seems far more nearly to fit our case. And there, in some instances at least, larger sales in foreign markets have been secured only by cutting export prices to a point considerably below those maintained in Germany itself. The German public is compelled, through high prices at home, to subsidise the German exporter, and so enable him to 'dump' his surplus production abroad at lower prices. But this clearly is not the way to increase sales in the home market; for there the more the consumer has to pay the less he will be able to buy. The German producer is therefore driven to practise restriction of supply in his home market, and to redouble his efforts to place the new output made possible by rationalisation at specially low prices abroad. The British rationaliser, thanks to Free Trade, is in many cases unable to hold up the home price. But unless he can do this, his power to dump the surplus abroad is greatly diminished. That is why the demand for a tariff so often accompanies the proposal that an industry should be 'rationalised'.

If the home consumer is to pay more, either in order that he may pay the cost of dumping or because the rationalisers control the home markets, demand will clearly not expand, and the fruit of rationalisation will be additional unemployment unless the foreign market shows a quite unexpected and unaccountable degree of elasticity. And, if the consumer is to pay less for the products of rationalisation, it is difficult to believe that at the same time wages can be advanced, unless the British employer takes to paying deliberately higher wages than he need. For clearly rationalisation, in its early stages, is bound to lead to a displacement of labour, which will both diminish the total sum paid out in wages and increase the pressure in the labour market. There will be increased competition for jobs; and it would be a miracle if, under such conditions and in a capitalist society, the general level of wages were to rise. It is more likely to fall, destroying as it falls the purchasing power on which the rationalisers profess to rely for the selling of the additional output made possible by rationalisation. For the plans of the rationalisers

appear to be based on a blind faith that, if only they can bring down the unit costs of production, the problem of distribution will look after itself. They are superior to the coal-owners in that they propose to reduce costs by increasing technical efficiency rather than by direct cutting down of wages. But they do not escape the rock on which the coal-owners' policy has foundered. Even at lowered prices, the foreign demand for most goods is not highly elastic; and the British demand will be contracted no less by employing less workers than by paying less wages to each worker employed.

These arguments are directed, not against rationalisation itself, but against the idea that it offers a means of solving the economic problem. It does not, because that problem cannot be solved in the sphere of production alone, but only by a simultaneous tackling of the twin problems of production and distribution.

On the side of production it is beyond doubt that the contentions of the rationalisers are largely true. Whatever industrial system this country adopts, it will be essential to do many of the things which they are now urging upon British employers—in most cases, with very indifferent success. Their general object may be defined as the reduction of costs by the application of more scientific methods to the organisation of industry in both its technological and its administrative aspects. With this end in view they urge (1) the grouping of firms engaged in the same, or associated, forms of production into closely knit associations capable of controlling both the quantity of output and its allocation among the firms affected; (2) the creation of more effective marketing organisations either controlled by, or closely linked up with, the producing concerns; (3) the concentration of production upon the plants able to produce each particular commodity at the lowest cost; (4) the re-equipment of industries with the latest plant and appliances, and a more ruthless policy of scrapping obsolete instruments of production before they are physically worn out; and (5) a clearer recognition of the close technical interrelation between different branches of production, and an attempt, by the fullest development of by-products and auxiliary processes, to achieve the greatest possible economy, not only of large-scale production, but also of the joint production of kindred utilities. That the rationalisers, left to themselves,

are likely to put these methods of procedure to wrong uses because of their failure to tackle the problem of distribution does not invalidate the truth that every one of these five things just mentioned is a good and necessary thing, and no less good and necessary from a Socialist than from a progressive capitalist point of view.

Indeed the difficulty in Great Britain is likely to be, not that employers will push on so fast with the work of rationalisation as to counteract, by the fresh unemployment the change is likely to create, the measures proposed in earlier chapters for getting the unemployed back into jobs, but that they will, save in one or two specially situated branches of production, not go nearly fast enough. And, if rationalisation is likely to cause unemployment, the failure to rationalise is practically certain to cause it faster still. Improvement in the efficiency of productive and marketing methods may not enable Great Britain to regain her old place in the export markets of the world—indeed, I am fairly sure it will not—but failure to increase efficiency will certainly lead to a progressive contraction of many of the markets that we now hold. We have not the choice between creating unemployment by rationalisation and keeping unemployment as it is by leaving productive methods as they are; for, of the two policies, the latter is likely to lead to the greater contraction in the demand for labour. We have to regard our present unemployment, not as a stagnant mass of superfluous labour, but as a torrent that is likely to become fuller still unless we take measures for the stimulation of a larger effective demand. We must, therefore, rationalise our industries as a measure of mere self-preservation; but we must recognise at the same time that rationalisation by itself will do nothing to solve the problem of making demand equal to productive capacity.

What signs are there that British employers are alive to the need for rationalisation, and taking positive steps in order to bring it about? In most industries, the auspices are by no means encouraging. The chief cases in which large steps towards re-organisation have already been taken are, first, the groups of enterprises with which Lord Melchett is prominently associated, and secondly certain sections of the heavy metal industries and a few isolated concerns in the coal and other trades. Imperial Chemical Industries and the Amalgamated Anthracite Collieries,

two of Lord Melchett's principal enterprises, appear to have set out definitely to put the policy of rationalisation into practice, and the recent fusions of interests in the metal trades are primarily designed with the same object. The coming together of Vickers, Armstrong Whitworth, and Cammell Laird foreshadows a great group of enterprises aiming at the rationalisation of a large part of the British trade in certain special steels, in armaments, and in railway material; while the linking up of Dorman Long and Bolckow Vaughan creates a powerful combination concerned with certain other branches of the steel trades, and especially with the employment of steel in civil and constructional engineering. This latter body, incidentally, covers an important section of the coal trade, and may thus accentuate the tendency to treat coal mining, not as an industry in itself, but as a contributory factor in many coal-using services, and thus to handle the coal problem not as one problem in itself, but as a part of many different problems.

The instances of rationalisation, or semi-rationalisation, just mentioned, have certain important differences. Lord Melchett is aiming at making Imperial Chemical Industries practically a monopoly, a trust controlling as nearly as possible the entire supply of the main products in which it deals. The anthracite merger is of the same type; for the concentration of most of the British supply of anthracite in a small area in South Wales makes an approach to monopoly relatively easy. But neither the Vickers-Armstrong-Cammell group nor the Dorman Long-Bolckow-Vaughan group can hope for monopoly in quite the same sense. Their aim is to control rather certain vital sections of the supply of the goods they produce than the output of steel as a whole. Possibly these fusions into larger groups may make easier the creation of a general combine of some sort among the steel-producers. They hardly aim, as Imperial Chemical Industries aims, at being themselves such general combines.

At this point a legal issue of some importance arises. It has sometimes been suggested that British law is unfavourable to trade combinations, and ought to be changed on this ground, in the light of the now recognised need for the rationalisation of productive and marketing processes. But the truth is that British law is not unfavourable to combinations, but only to those which assume certain special forms. The law of corpora-



tions is based on individual analogy, the company being recognised as a sort of corporate person, with rights and powers resembling as nearly as possible those of the individual. This results, broadly, in the law recognising the right of a joint-stock concern to do almost anything that an individual can lawfully do, and to enter into almost any contract an individual could lawfully make, with the same backing from the courts should any question of breach or enforcement arise. The joint-stock company is, from the standpoint of the law, not an association, however many shareholders it may have, but an individual; and it is tied down only to the objects which it freely chooses as its own, and defines for itself in its memorandum of association.

Certain curious results follow. If a number of firms form an association for the purpose of regulating prices or output, or imposing any common conditions on the trade to which they belong, they remain, from the standpoint of the law, a number of separate individuals who have agreed among themselves to follow a common course. In ninety-nine cases out of a hundred, the course of action which they desire to pursue will involve some sort of 'restraint of trade', usually in an extreme form, as when they agree to restrict supply, or fix prices, or apportion markets, or do any of the things which combines generally seek to make the basis of their working together. There is, under British law, nothing criminal in their doing these things, though 'restraint of trade' by a number of persons may become 'criminal conspiracy' if it is aggravated by other circumstances, as Trade Unions know to their cost. But in any case, though there is nothing criminal in the mere making of agreements that are 'in restraint of trade', the British courts will do nothing to enforce them, or any action arising out of them. The price-fixing, output-regulating, or collective-marketing association of a number of separate firms is thus, in Great Britain, a type of body that is outside the law, and cannot look to the courts for the enforcement of its contracts. This applies to the cartel equally with lower forms of association. The cartel has no such recognition in the British as in the German legal structure of the economic system.

But note the sequel. If, instead of forming an association, the firms concerned completely merge their identities in a joint-stock company embracing them all, this company at once becomes, from the legal standpoint, an individual and not an

association, and is entitled to do, broadly, anything that an individual may lawfully do. It will not, in such a case, need to go to the courts for the enforcement of its own internal regulations; for these will be wholly under its own control, and it will not be possible, as it is in an association or cartel, for a dissentient firm to break away, or to ignore the association's orders even while continuing its membership. But, apart from this, the complete amalgamation, being in the eyes of the law a single person, will be free to act 'in restraint of trade' as much as it likes without incurring the faintest breath of legal censure. For an individual can restrain trade to his heart's content; only when the restraint is the work of a combination does any taint of unlawfulness attach to it.

British law is thus highly favourable to complete amalgamations and trusts in the full sense, but on the whole unfavourable to mere associations or cartels. This contrast, is, however, too sharp; for to the extent to which any joint action by employers can be achieved through a body registered under the Companies Acts, and therefore recognised by the law as a corporate person, the benefit of the law's countenance can be assured. These facts undoubtedly influence in some measure the structure of British business. They definitely encourage in some cases complete financial unification of a group of business, as contrasted with the making of a mere working arrangement. They encourage businesses which desire to work together to give their arrangements for joint action a joint-stock form, by creating holding companies, jointly owned subsidiaries, or the like. And finally they lead, when the cartel or association is used as the instrument for carrying through important forms of collaboration, to special arrangements designed to make possible the enforcement of a common policy without recourse to the law. A familiar form for such arrangements to take is the deposit by each firm in the hands of a lawyer, bank, or accountant, of a substantial sum which it agrees to forfeit if it breaks any of the rules of the association, and the use of a similar method for the payment of fines and compensation to firms which exceed or fall below their assigned quotas in any scheme for the collective regulation of output.

It is a matter for careful consideration whether, and in what respects, the law relating to trade combinations stands in need

of amendment. The rationalisation of British industries is likely to involve many diverse arrangements, from complete amalgamations of firms into great producing units to comparatively loose arrangements between separate firms for the standardisation and simplification of products or the regulation of marketing conditions. It seems likely that, in order to secure the full benefits of large-scale production and to concentrate the manufacture of particular varieties of product in factories specially equipped for this single purpose, a considerable amount of absolute amalgamation will be needed. But, as in the case of the recent linking up of forces by Vickers, Armstrong Whitworth, and Cammell Laird, there will be many instances in which the complete amalgamation of the concerns affected will not be the obvious way out. These three concerns, for example, are all engaged in a number of different branches of production. They have many important interests in common; but they have others which are clearly distinct and are more likely to lead each of them to enter into working arrangements with different groups of firms whose interests touch theirs at these other points. It is undoubtedly desirable that they should have full freedom to do this, and to enter into as many and diverse forms of association with other firms or groups as they may choose. It may become necessary, in connection with any or all of these arrangements, to take special measures in order to safeguard the public interest; but it is to the interest of the public, as well as of the firms themselves, that all possible arrangements likely to minister to productive or marketing efficiency should be made. The highly elastic structure of the British company system on the whole makes this easy; and it is desirable, while taking steps to correct the abuses to which this system has shown itself liable, to do nothing to lessen its elasticity in this respect.

The law, in so far as it relates to complete business amalgamations or to the formation of holding, or joint subsidiary, companies designed to enable separate businesses to work as one in certain of their activities, seems already to meet the needs of the new policy of rationalisation, and to need only these safeguards in respect of publicity and the prevention of unfair manipulation of accounts, to which reference is made elsewhere in this book. The position is not, however, the same as it affects trade associations aiming rather at the common regulation of the policy of a

particular industrial group as a whole than at any financial fusion of interest among the firms belonging to it. For the law as it now stands has a tendency, not to prevent the making of such arrangements, but to drive them underground, and, by denying them the protection of the courts, to cause them to take for their own protection private measures over whose working the community can exercise no control. Moreover, in so far as the refusal to recognise associations 'in restraint of trade' prevents them from making binding arrangements with their members, it makes the measures which they adopt unstable. This instability has sometimes been regarded as a valuable safeguard of the public interest; but this view is highly questionable. In the past, there has been a heavy mortality among British combinations designed to regulate prices and output. They have lasted, and often pursued a highly restrictive and extortionate policy, over a period; and then conditions have arisen in which it has temporarily paid either the best situated, or the worst firms, or perhaps both, to break away. The collapse of the association has followed, and there has been a period of unrestricted price competition, sometimes followed by the reconstruction of the association a year or two later.

Under these conditions, it may be true that the consumer secures a temporary advantage when the association collapses. But this is likely to be far more than offset by the evil effects of a trade policy which is essentially fluctuating and unstable. It would be far better either to have no common regulation of the trade at all, or, as common regulation is in some form inevitable, to make it continuous, but to subject its workings to continuous public scrutiny by some body armed with the State's authority to prevent unfair manipulation of prices and supply. To secure this would involve a change in the attitude of the State towards associations of this type, and in the recognition accorded by the law to their contracts and agreements. It would mean recognising the cartel or trade association as a necessity of modern industry, and giving it at the same time further powers and defined and enforceable responsibilities.

The idea underlying this view is that, while in a few industries the needs of rationalisation are likely to be met by complete amalgamation resulting in a monopolistic trust, in the majority of cases the future structure of industry will be by no means so

simple. There are likely to be, on the one hand, a great many sectional linkings up of great firms for the unification of some particular branch of production or marketing, and on the other a great many associations of independent firms for purely regulative purposes, unaccompanied by any fusion either of financial holdings or of productive forces. It is too simple an account of the problems to call fusions of the former types 'vertical' and those of the latter type 'horizontal'; but it is true that this will be the common tendency. And, it is above all important to observe, the same firm will often be found to have connected itself with fusions of both types, and with more than one fusion of each type.

This is, of course, all part and parcel of the argument, already advanced in the last chapter, that the recent evolution of the technique of production has made it far less possible than it used to be to think of the economic problem in terms of a number of distinct and definite industries. As the workers become more readily transferable, and skill and dexterity matters less of specialisation to a particular industry than to groups and types of processes common to many machine-using industries, so the lines of demarcation between the various industries themselves are being broken down. This is clearest of all in the case of coal, where the hope of future prosperity plainly depends to a great extent on treating coal not as itself a saleable commodity, but as a crude material from which many different saleable commodities can be extracted. But it is hardly less clear in the metal trades. The rivalry of wood and iron as materials capable of being made into utilities, serving many of the same purposes, is, of course, a very old rivalry; but with the rise of new materials, such as rubber and various synthetic products, the boundaries of the older industries using wood or iron as their principal material are being more and more generally overstepped. Even the erection of buildings has become largely a problem for the engineer; and the lines of demarcation between the engineering and building industries are not at all easy to draw in the light of modern changes in productive technique.

'Rationalised' capitalism, then, must not be envisaged as involving solely or even primarily the creation in each separate industry of a single powerful trust or cartel possessing a monopoly, and able to speak in the name of the whole body of firms con-

cerned. There will doubtless be many bodies of this sort; but side by side with them there will be many other forms of capitalist combination crossing, and often wholly ignoring, traditional industrial boundaries. This, as we shall see in the next chapter, involves a thorough restatement of the familiar policy of nationalisation; for, in face of this new structure of capitalist industry, the extension of public ownership and control will have to be compassed largely in new ways. In this chapter, however, we are concerned, not with the extension of public ownership, but with the attitude that ought to be adopted towards proposals for the rationalisation of industries while they remain under capitalist ownership and control.

In general, I have suggested, the danger is not that British employers will move too fast towards rationalisation, but that they will be very difficult to move at all. Lord Melchett may be able to rationalise fairly easily a small and compact group like the anthracite collieries, or even the large but relatively manageable chemical group, in which the ground was already prepared for him by the long-recognised need for large-scale production and the existence of big concerns which had only to be brought together. The chemical industry, moreover, is a group in which, because of its late rise to primary importance, the force of tradition is relatively weak. In most industries, the advocates of rationalisation have to contend with a considerable number of old-established businesses of all sizes which are most reluctant to merge their prized separate identities in any larger body, or even to surrender into the hands of any collective organisation of the trade enough power to give it real control of policy in any vital matter. A good many of these firms have highly specialised markets of their own, acquired as a result of long practice in the trade, and involved with all manner of traditional, personal, and family connections. They fear the breaking of these old links as the result of collaboration over a wider field. If, for example, an effort is to be made to concentrate particular types of production in the works best suited to them, in order to bring down costs and produce each commodity on a larger scale than now, clearly each separate business cannot go on supplying, as it has done in the past, the diversified needs of its own customary market. It will have to hand over some parts of its existing trade to other suppliers, and get some of their trade in return. But this is a pro-

cess which, from the standpoint of each particular firm, clearly involves risks; for no one is anxious, without an assured *quid pro quo*, to hand over a section of his customers to someone else, especially at a time when the limitation of the total market is the most serious problem to be met. Least of all is he willing to do this if the body which asks him to do it is an easily terminable association, armed with very restricted powers and liable to be broken up at any time by secessions or by the mere ignoring of its orders by the constituent firms.

This explains, to a great extent, why most regulative associations accomplish so little in the rationalisation of the processes of production. Their arrangements have no guarantee of permanence, and accordingly each firm is indisposed to hand over real powers or run real risks in order to further their objects. But it is also true that much reluctance would remain even if these difficulties were overcome. The family business is a highly individualistic thing, and it has so far been nearly impossible, even where the need has been clearly urgent, to get businesses of this type to work together.

It is therefore probable that, before rationalisation can be pushed far in those branches of industry in which the family business is an important factor, the State will have to take a hand. It will become necessary not only to give fuller recognition to combines, but to insist on their creation and on the participation in them of producers who are disposed to be recalcitrant. It would not, of course, be easy to force a policy of joint action upon a body of employers solidly opposed to it, and firmly individualistic in their outlook. If such a situation were found to exist in a case calling for common action on behalf of a trade as a whole, the only available remedy would be either complete national acquisition or a strong form of state control. In most cases, however, solid opposition is less likely than division of opinion among the employers concerned; and in such cases the State may find itself in the position of having to compel reluctant firms to join capitalist combinations and to obey their rules and precepts. Such action, could, of course, be taken only where the policy of the combinations in question was opened to full public scrutiny and control. But this control would become progressively easier to exercise with the gradual putting into effect of the measures outlined in the following chapter.

The view which I have been stating is, of course, fundamentally different from the familiar Liberal attitude towards capitalist combinations. The Liberal view was favourable to capitalism, but unfavourable to combinations. The view here stated is favourable to combinations, but unfavourable to capitalism. It starts out from the recognition that the economic life of society needs to be collectively controlled in the common interest, and that this control can only be effective if it extends to the standards and quantity of output, the regulation of prices, and the concerted search for the most efficient methods of both production and marketing. It proceeds, at the next stage, to assert that, as a Socialist society must be built up out of the structure previously developed by capitalist industry, it is of vital concern for Socialists to make capitalist industry as suitable as possible for collective regulation. It urges, finally, that in the transition from a capitalist to a Socialist economy it will be necessary to extend a progressive control over industries while they still remain in capitalist hands, and that this involves the existence of collective organisations with which the State can deal, and over which it can exert a steadily increasing authority. To all these points greater clarity will, I hope, be given in the course of the next chapter.



## CHAPTER VII

### SOCIALISATION

Socialism and nationalisation—The need for diverse forms of social control—What is the 'capitalist system'?—Socialism not a rigid scheme—How far do Socialists wish to 'nationalise' industry?—Nationalisation, old and new—Control of economic policy the vital matter—Parliament cannot administer industry—Nor is Civil Service control workable—Industrial administration an expert affair—Need for a system of responsible expert commissioners—Who must be responsible to Parliament—But the problem cannot be tackled industry by industry—The case of coal considered—What is the mining industry?—Desirability of maintaining existing business units in many cases—Public ownership of minerals—Public capital for mining reorganisation—Form and conditions of State control—A Mining Commission—The marketing of coal—Is this plan socialisation?—Ownership and control—The future of the coal mines under socialisation—The problem of wages, hours, and employment—The Eight Hours Act—Need for European agreement on miners' hours—Should the mines be subsidised?—The cotton industry—Need for a wide measure of socialisation, to be carried through with an economy of parliamentary time—Should the railways be nationalised?—Railways and road transport—Methods of railway socialisation—Advantages of socialisation without direct purchase—Need for a co-ordinating Power and Transport Commission—Which would be parallel to the Board of National Investment—The cotton industry again considered—The policy of administrative socialisation summarised—The problem of parliamentary control—The ordinary man's interest in economic affairs—The sphere of expert control—Measurement and publicity as the consumer's safeguards—Need for a reform of Parliament—Long and short views—Socialism must be at once opportunist and constructive.

IN the minds of many, among both critics and advocates, the policy of Socialism is almost summed up in the one word nationalisation. The Socialist sets out to nationalise 'the means of production, distribution, and exchange'; the anti-Socialist puts his faith in 'private enterprise'. In one sense this summing up is quite correct; but in another it is highly misleading. For what the Socialist does essentially set out to nationalise, or per-

haps better to socialise, is, not this or that particular industry, but the control and direction of the economic life of the community. This will certainly involve the transference of a large number of enterprises now in private hands to various forms of public ownership and administration; but it does not involve either universal public ownership, or any one form of control or management in industry. As Socialism develops, the forms of 'socialisation' are likely to be very diverse; and their diversity will be a source of strength.

The analogy of private capitalism may help to get the point clearly understood. The apologists of capitalism sometimes defend it by the curious argument that it does not exist. It is, they say, a bogey created by Socialists for the purpose of their attack. The existing forms of business enterprise, they urge, are immensely various, and do not add up to a single system that can fairly be called capitalism. There exist side by side to-day huge trusts and combines, vertical and horizontal, on the one hand, and tiny one-man businesses on the other. Lord Melchett and the boot-repairer in the back street are both independent business men, conducting freely under what is called capitalism independent enterprises of very different kinds. Moreover, side by side with private businesses and ordinary joint-stock concerns, there exist to-day all manner of enterprises conducted under special conditions and subject to special forms of control—railways, electricity undertakings, gas-works, public utility societies, insurance societies, co-operative bodies of many types—all playing their respective parts in the economic operations of society, and all securing, under what is called capitalism, free scope for development. Even the public enterprise for which Socialists contend finds, it is argued, its appropriate field of development within the existing economic order. The State conducts directly the Post Office, the Dockyards and Arsenals, and a huge and rapidly growing insurance business; while the municipalities have been allowed to develop a great body of services of their own, ranging from water-supply to transport undertakings, and from the conduct of schools to house-building by the method of direct labour. An economic order so elastic provides, it is urged, all the scope that can reasonably be demanded. There is no reason for Socialists to propose a new economic order; for they can get all that is sound in their pro-

posals adopted without any radical change of system. Capitalism, it is said, is a Socialist myth; and Socialism is an absurd exaggeration of one necessary feature in the immensely complicated economic structure of modern society.

This argument, plausibly as it can be presented, is sheer nonsense. What matters is not that, under the present economic order, there is room for diverse types of enterprise, but that one particular system of economic organisation is dominant, and sets the tone and largely prescribes the conditions of existence for all the rest. The present order is not one hundred per cent capitalist; but, to make use of a capitalist phrase, capitalism has in it a secure controlling interest. Even enterprises that are publicly owned have to-day to be conducted within a framework of rules laid down for them by capitalism. They have to raise their capital in a capitalist money market, to get their powers from a capitalist Parliament prompt to stamp upon any development—such as municipal banking—which threatens its monopoly power, and to conduct their operations under the hostile scrutiny of vested interests strongly entrenched in the seats of authority. Their development is restricted within narrow limits; indeed, to a great extent it is confined to the doing of services which either offer small prospects of profit, or, conducted at a loss, are efficacious indirectly in putting money into the capitalist's pocket.

The Socialist attacks, not each and every instance of private enterprise, but the dominance of capitalism in the life of society. He wants to put in its place, not a system whereby each and every enterprise will be conducted directly by the State, but one that will ensure the dominance of social control in economic affairs. He wants Socialism to occupy the key positions in the economic order which are now in capitalist hands. Within the system of Socialist control, he recognises fully the need for a great diversity in the actual forms of enterprise, and for a wide freedom to experiment in new ways of organisation.

Socialisation, it follows, is not a rigid scheme to be applied uniformly to all industries and services, but an idea needing to be adapted to each particular case, and constantly modified in its working out in the light of changing social and technical conditions. It means, not the application of a simple formula of national acquisition to any and every industry or service, but

the extension of some kind of effective social control over the economic system as a whole, and over all such parts of it as vitally affect the conduct of the whole.

No Labour Government, on taking over the control of government from its capitalist predecessors, will be able to aim at a sudden transformation of every part of the existing economic order. Nor will it even wish to do so; for it will recognise clearly that the Socialist system of controlling the economic life of society has to arise gradually out of things as they are. It will aim, therefore, at getting control of the key positions, and, by establishing a Socialist form of control in these, influencing the entire economic system and causing it to conform increasingly to Socialist canons of economic behaviour.

It must not, then, be taken for granted, without special examination of the circumstances in each case, that the Socialist wants, either immediately or in the long run, to 'nationalise', in the current sense of the term, any particular industry or service. A Labour Government may decide to socialise this or that industry; but its reasons for the decision will be particular and not general. It will socialise, not for the sake of socialising, but because it believes that, for reasons special to the case in question, socialisation of that particular industry is desirable in the public interest. It may easily find itself resisting pressure from some sections of its supporters for the socialisation of a particular service, because it feels that the special case for taking it into the hands of the State has not been made out.

Not only is the question whether any given industry should be socialised or not an open one for the Socialist: the form of socialisation is also entirely open. It was natural for Socialists, in their purely propagandist days, to think out a particular pattern of 'nationalisation', and endeavour to impress that on the public mind as an alternative to the present system; for they wanted to get home to the public not the case for dealing with some particular industry, but the case for Socialism in general. They knew that socialisation was not immediately practical politics; and therefore what mattered was to impress the public mind with the general ideas behind it, and not to apply it to any individual instance. Similarly, when Guild Socialism arose as a criticism within the Socialist movement of the then dominant

collectivist, or bureaucratic, tendencies,<sup>1</sup> it, too, was concerned to impress upon Socialists its own alternative pattern of socialisation in general, and not primarily to apply its principle to a special case.

The coming of socialisation within the sphere of immediately practical politics has of necessity altered the state of the case. The question is now less of propagating an idea than of deciding how to act in face of its widespread acceptance. The idea has to be worked out and applied realistically to a particular situation. Socialists have to settle what industries and enterprises to tackle, and how to deal with them. It is not at all surprising that, in face of the change, the artificial simplicity of the old propagandist doctrine is destroyed, and the problems appear far more complicated and diverse than of old. The idea of socialisation remains; but perhaps we shall find that we no longer want to 'nationalise' any industry at all, in quite the old sense. A bed and the idea of a bed, as Plato explained, are quite different things. In the same way, the actual socialisation of particular enterprises will turn out a very different thing from the idea of 'nationalisation' as it was conceived in the minds of Fabian and other propagandists a generation ago.

The vital factor for Socialism is not the direct administration of industries and services, but the control of policy. It is necessary to ensure that each important industry and enterprise falls into its proper place, and performs its appointed service, in the general economic scheme. But, provided that it does this, the less the State has to do directly with its detailed administration the better. The Socialist State will have quite enough to do without cumbering itself with a single function that can be safely left to any other organisation or person in the community. Its

<sup>1</sup> It is sometimes suggested nowadays that this bureaucratic conception of Socialism was an invention of its opponents, and was never really held by any considerable body of Socialists. This does not agree with my experience. In the early days of Guild Socialist propaganda, I remember constant denunciations of all who attacked it as not being Socialists at all. It is, of course, true that Mr. and Mrs. Webb, commonly regarded as the arch-bureaucrats, always allowed a very wide sphere for municipal and co-operative enterprise side by side with nationalised services; but many of their followers, especially in the I.L.P. and among the younger Fabians of pre-war days, appeared to regard nationalisation and Socialism almost as synonyms, and to treat the 'Civil Service' administration of nationalised industries as axiomatic. Perhaps the leaders never held this; but certainly their followers did.

greatest danger is that of becoming top-heavy, through the accumulation of too many detailed functions in its hands. It must control policy, but as far as possible it must avoid assuming the function of administration.

It follows that any project of conducting new State-controlled services through civil departments, with their responsible Ministers in Parliament and their organisation modelled on that of the administrative Civil Service as it now is, can simply be ruled out of court. It would result either in a hopeless over-weighting of Parliament with business for which it would have no technical competence, or in an entire absence of real control and a thorough triumph of Civil Service bureaucracy. Of these two, the latter would be the more likely, and by far the less harmful; but both would be fundamentally unsatisfactory. Parliament cannot be run on the model of a Town Council, administering a number of trading departments through appropriate committees. Indeed, it is becoming more than doubtful whether even Town Councils can be successfully run on these lines, at any rate when they gather into their hands any considerable body of trading enterprises. Our Local Government methods are not so finally satisfactory that we can confidently remodel our national procedure on an imitation of them.

Civil Service control presents a different danger. The Civil Service bureaucrat, if only he were let alone, might succeed in running his productive department quite efficiently and in working out—what is vital—a satisfactory practical relationship with the workers whom it employed. But he would not be let alone. Parliament, unable to control systematically, would interfere spasmodically, and make hay of his best-laid schemes. And no form of control is so bad as one in which those who actually administer the job are liable to be overridden by persons who know nothing about its normal working, but make sudden incursions into its affairs whenever they get a particular bee in their bonnets.

Neither committee control through Parliament, nor purely departmental control subject to occasional parliamentary interference, will meet the need. Neither the Glasgow trams nor the Post Office can provide the working model for an extended system of industrial socialisation. Nor can any one model be put forward in place of these. Different cases will have to be dealt

with in different ways, some of which are discussed below. But, in general, it can be said that the system of delegating powers to independent and responsible bodies of commissioners, already adopted in the cases of electricity and railways, in as far as they are subject to public control, is likely to play a very large part in the practical working out of the new Socialism.

For the running of industry, whatever qualities of personality and political wisdom it may demand besides, is essentially an affair of experts. Big questions of policy must indeed be decided on behalf of society as a whole, in the light of the relevant expert advice; but actual administration is the expert's business. The expert is, indeed, especially important just now, because in practically every industry it is not a question of carrying on routine administration along lines already laid down with sufficient clearness, but of transforming rapidly the methods of production in the light of a swift process of technical advance. Within the limits of the broad control of policy by the State, it is indispensable to give the expert a wide discretionary power, and a liberal freedom to experiment in new methods.

A system of responsible commissioners, adapted in varying ways to the needs of different services, seems most likely to meet the need, and to provide for the successful socialisation of industries under public control. But these separate bodies of commissioners must be really responsible, not merely in a nominal sense to Parliament which sanctions their appointment, but to some public authority capable of co-ordinating their several activities, and defining for them the general course of policy which, as administrators, they are called upon to pursue. The system of independent commissioners is apt to work badly now, precisely because no such co-ordinating authority exists. They are in effect irresponsible; and the control of policy, which is not their job, as well as the control of administration, which is, rests in their hands. Parliament, in setting up the commission, gives it certain powers and prescribes certain functions and lines of policy. But, when once the commissioners are in being, they are left without any effective subsequent direction, save that spasmodic parliamentary intervention which does more harm than good. Society lacks at present a central organ for the control of economic policy. Until that is provided, no really satisfactory form can be developed for the socialisation of any enterprise.

The whole economic system is so interrelated in all its major parts that no one industry or service can be considered apart. The early Socialists made, indeed, from their own standpoint no mistake when they worked out a pattern plan of 'nationalisation' and then spoke, in the old propagandist days, of applying it to this or that particular industry; but the Socialists of to-day will be making a great mistake if they set out on the practical work of Socialism in the same attitude of mind. Indeed, the mistake will be twofold; for not only is there no pattern-plan that can be applied to the diversity of the cases to be treated—there are not even the cases which the earlier Socialists took for granted. The modern development of industrial technique has blurred at one point after another the old lines of division between industries. Not only has it made labour far more readily transferable from one industry to another; it has also begun to remove the demarcation lines between the industries themselves. And this change has already made the treatment of each industry in isolation difficult, and will make it sheerly impossible in many cases as industrial technique continues to advance, and as business structure models itself upon the new technique of production.

Already, in more than one particular case, this question has arisen in a very practical form. The coal mines offer an obvious example. Socialists, with the endorsement of the Miners' Federation, have long demanded the nationalisation of the mining industry. A Labour Government will find itself urgently pressed, on assuming office, to carry its precepts into effect; and it will be pressed with the more vehemence because nothing could well be more unpleasant for the miner than his present situation under private capitalism, or less beneficial to the community than the way in which the industry is now conducted.

But what is this mining industry which the Labour Government will be asked to nationalise with all speed? It is easy enough to answer that it consists of all the collieries in the country, and of the economic organisations at present responsible for their conduct. Such phrases only cover up the essential difficulty. For many of the coal mines belong, not to pure colliery companies or private owners engaged solely in the extraction of coal, but to great concerns which have acquired coal pits in order to assure themselves of a regular supply of one of their essential raw materials, and to eliminate in their own businesses the



financial problems arising from the fluctuation of coal prices. The getting of coal is not the main business of these concerns; it is merely a process subsidiary to their essential activity of producing, say, iron and steel or some manufactured metal commodity. A substantial part of the coal industry of Great Britain, including many of the most productive mines, is in the hands of concerns of this type. Moreover, many of the firms which are more directly concerned in coal-getting for its own sake own and conduct important subsidiary enterprises—coke-ovens, blast-furnaces, by-product plants of many kinds—and market many commodities besides the raw coal which they draw up from their pits. The marketing of coal in the raw state is becoming a less important part of the business of many collieries; and all the experts are in agreement that, as the technical revolution advances, it is likely to become less important still.

What do Socialists mean to nationalise—merely the coal mines or the entire complex of business enterprises now engaged in the production of coal together with other commodities? The two proposals are very different, and would have widely differing economic effects. The former would involve the breaking up of a number of great business enterprises based on the method of vertical combination. It would take away their coal mines, and leave them to carry on the rest of their activities, buying their coal like other consumers from the nationalised colliery service. The latter would involve the nationalisation, not merely of the coal industry, but of a great mass of business enterprises extending far beyond it. The State, if this second method were followed, would become at once part-owner of the iron and steel, chemical, and many other industries, and would find itself in direct competition with private enterprise over a wide field.

The attempt has often been made to meet this difficulty by a compromise, and to suggest that the State should take over all the coal mines, and should further acquire, under the Nationalisation Act, the right to take over any related enterprise which it would be uneconomic to sever from the mines in connection with which it is now carried on. But this is no answer. It is easy enough to draft a Bill giving the State power to nationalise anything; the practical question is what it is really intended to nationalise. And this question is far harder to answer.

For, if there is a strong case against taking over, in order to nationalise the coal mines, a huge mass of enterprises in which the getting of coal plays only a subordinate part, there is also a strong case against breaking up the vertical combinations which have become a characteristic feature of modern capitalist organisation. These great concerns have acquired coal mines, not for the fun of the thing, but on the whole because it has paid; and, on the whole, it has paid because it has ministered to more efficient production. It may be urged that the profitableness of vertical combination from the capitalist standpoint is not a sufficient reason for regarding it as socially beneficial. But if its profitableness has arisen from its efficiency, that consideration at any rate is fully as important for the State as for the private capitalist. There have been, no doubt, plenty of cases in which vertical combination has not paid. This has happened especially where growing concerns have taken over subsidiary businesses at grossly inflated prices based on the fictitious values that prevailed during and just after the War. But it would be foolish, on this slender ground, to dismiss vertical combination as uneconomic. There is ample evidence that, where it has been carried out sensibly and without capital inflation, it has usually paid, and has done so because it has made production more efficient.

It would, therefore, be mistaken policy for Socialists, in order to nationalise the coal mines, to break up business units which stand for the last word in the evolution of modern industrial technique. If this is not to be done, what is the remedy? It is out of the question for a Labour Government, early in its tenure of office, and before it has had a chance of developing any suitable administrative machinery, suddenly to take over the complete ownership and control of the great vertical concerns which are interested in coal-mining along with other activities. But it is also out of the question to nationalise the rest of the mines, and to leave outside the scope of nationalisation those which form part of, or are controlled by, the vertical combines. For the State, if it did this, would, in some coal-fields, though not in all, find itself in possession of nearly all the bad pits and very few of the good ones. Nationalisation under such conditions would clearly not be an economic proposition.

Are Socialists, then, despite all their earlier professions, to

refrain, when their chance arrives, from socialising the mining industry at all, and to leave the miners and the community to put up with a continuance of the existing situation? Such a conclusion is unthinkable. The mining problem must be tackled, and tackled courageously. The coal industry must be brought decisively under public control, and reorganised from top to bottom under national auspices. In that sense it must be socialised; but the form of socialisation will need to differ considerably from that which has been envisaged in the past.

One obvious step, on which Socialists are in agreement with every honest student of the coal problem, no matter what his political opinions may be, is the complete assumption of mineral ownership by the public. This will at once give the State control of the terms of colliery leases, enable it to cut clean away from the complications caused by the separate surface ownerships of the soil, and allow an unfettered re-planning of colliery development, so as to introduce, wherever they are needed, common arrangements for drainage, ventilation, and the like, and to enable coal to be extracted without regard to property barriers from the most convenient shaft. This involves, of course, compulsory amalgamation of collieries, wherever necessary, into more economic units; and it will be needful to take at once full powers to carry this into effect. State ownership of minerals is but a small step towards the reorganisation of the coal industry: it is, however, an indispensable first step.

Owning the minerals, and vested with powers to enforce amalgamation, the State can at once proceed a stage further. It can offer to provide the capital needed for the economic reorganisation of the grouped pits, on drastic conditions as to control, and can take powers, where owners prove recalcitrant, to supersede them and put in nominees of its own to run the pits. Just as Mr. Neville Chamberlain has superseded certain Socialist Boards of Guardians, the Labour Government can take power to supersede mine-owners who fail to carry its policy into effect. But it need do this only in case of recalcitrance or inefficiency. First, it can offer to the existing owners of the collieries a scheme, which they will be invited to carry out under State supervision. The State can lend them the funds, or as much of them as they cannot supply themselves, receiving in return a floating charge on all the assets of the concern. In-

terest can be charged, at a rate sufficient to cover the State's own charges, and in addition the State can acquire the right to share in any surplus profits over a fixed maximum. At least one State director can be added to the board of the concern, and he can be entrusted with the general supervision of the approved scheme, to some extent in the manner of a receiver carrying on a business on behalf of the debenture holders, but with less exclusive powers. Thereafter, if profits were made, the colliery shareholders would get their dividends after the State interest charge had been met; but the State would assume no responsibility for paying them unless profits were forthcoming. The shareholders would remain as owners of the concern, subject to the floating charge held by the State. This floating charge would take precedence over the claims of the shareholders, but not over ordinary trading debts, in order that the credit of the concern might not be impaired. It would thus differ from a debenture, both in ranking after trade debts, and in carrying with it during its currency a share in control. The shareholders would, of course, be able at any time to regain their freedom by wiping off the loan. But this would not exempt them from the control exercised by the State over the industry as a whole.

The national supervision of all local schemes of this sort would clearly have to be vested in a small body of full-time Mining Commissioners, appointed for a period of years and eligible for reappointment, and holding positions analogous to those of the existing Central Electricity Board. These Commissioners, subject to the general powers conferred on them by Parliament and the overriding control of their policy by the Government, would draw up the local schemes, either in agreement with the coal-owners concerned, or, failing agreement, by the use of their compulsory powers. They would also have authority to arrange for the better marketing of coal, either through approved associations formed by the colliery concerns, or, failing this, through a subsidiary organisation of their own. They would control coal prices, and rationalise the industry by determining its total output, and allocating quotas to the various coal-fields and concerns. In addition, they would be empowered to enter into arrangements with associations of coal-owners or Governments abroad, subject to the sanction of the British Government, with a view to the 'rationalisation' of the European coal industry as a whole.

Finally, like the Central Electricity Board, they would have power to enter directly into production, by acquiring collieries from their present owners; but they would use this power only for particular reasons in each case, and not for the mere sake of using it. Some of these functions they would doubtless perform directly, and some through subordinate organisations of specialists directly responsible to them. Their power to regulate the affairs of the industry would, of course, extend to all collieries, and not merely to those in receipt of loans from the State.

Is this, or is it not, socialisation? According to the old ideas it is not, because it leaves the coal industry privately owned. But what really matters is not ownership, but control of policy. How would the State be better off if it bought all the coal mines, giving the present owners State bonds in exchange for their property, and then proceeded to manage them directly? It would probably be much worse off; for, instead of merely allowing the owners to share in future profits, if any, it would have guaranteed them interest in perpetuity, and, instead of taking over the industry as a going concern, it would have scrapped good with bad in the old organisation, and be compelled to improvise a new one from top to bottom. The coal industry *as a whole* is to-day lamentably inefficient; but in many of its parts it is well run, and there are in it many good men who are struggling vainly with an impossible situation. The sensible course is not to scrap the whole existing structure, but to adapt it to new needs, and superimpose upon it a strong central controlling power acting directly in the national interest. If the doing of that does not amount to socialisation, then socialisation is a phrase and not a reality. Leave the phrase aside. Does it not give Socialists all they immediately want, and hold out by far the best hope of putting the coal industry rapidly on its feet?

Of course, this plan needs working out in much fuller detail before it can be successfully applied. I am not putting forward a comprehensive scheme of colliery socialisation, but only attempting, by means of a pertinent example, to get Socialists to consider afresh what socialisation means, and what they mean in advocating it. I suggest that, the more they think about it in the light of particular instances requiring positive action, the less they will be able to regard it mainly as a change of ownership, and the more they will come to envisage it as a change

in control. Ownership matters, in the sense that the private appropriation of the fruits of industry matters, and ownership matters as carrying a right to share in these fruits. But the way of dealing with this aspect of the problem of ownership is by taxation, including the taxation of inheritance, and not by nationalisation in the old sense. Most Socialists have come round to the view that, when a service is 'nationalised', it will be necessary to pay compensation to its present owners. They salve their consciences for this act of injustice by promising to get it all back again by way of taxation; but they fail to appreciate the moral that the question of socialisation is primarily one, not of ownership, but of control. Let the State control the nation's industries, and it need not care who owns them, as long as it has the unfettered power of taxation in its hands.<sup>1</sup>

Doubtless, in the long run, the question of ownership is involved; for, if the State proceeds to tax the rich out of existence, they will have in the end to hand it their property in payment of their taxes. Then, and not till then, will the State, through the Mining Commissioners, become the complete owner of the coal mines. But long before that time arrives, it can become the complete controller of their policy.

An outstanding advantage of the method here suggested for bringing the coal industry under public control is that it avoids the difficulty of separating off the industry from others with which it is closely linked up. Under this plan, there is no question either of breaking up the great amalgamated concerns which extend across industrial borders, or of leaving those parts of the coal-mining industry which they administer outside the scope of public control. In respect of their mining operations, the concerns pass under public regulation; in all other respects they preserve their existing independence. Arrangements can be made for them still to draw their coal supply, as they do now, from their own pits; but these pits, like the rest, will have to conform to the general regulations laid down for the industry as a whole in the public interest. If similar methods of control are applied to other industries, the amalgamated concern may thus find itself subject to several different controls in respect of its various undertakings. This may raise certain problems of

<sup>1</sup> For a discussion of the methods of socialisation by taxation, see Chapter XVII.

demarcation and adjustment, which will require the intervention of some co-ordinating body such as I proposed earlier in this chapter. But there is no reason to suppose that these adjustments will present special difficulties, especially if the extension of control to different types of undertaking proceeds step by step.

The coal mines have been singled out for special treatment in this chapter, because it is clear that a Labour Government will have, at the very beginning of its career, to lay down the lines on which it proposes to treat this urgent problem. It would be a fatal blunder if the Government were to be hustled into some obsolete and unnecessarily costly form of nationalisation because of a failure to think out in advance a realistic way of tackling the situation. Yet this may very easily happen unless fresh thought is put into the working out of a solution here and now. It is true that the ardour of political Labour for the nationalisation of the coal mines has been very naturally cooled by the industry's growing difficulties; for even the most fervent believer in the virtues of old-style nationalisation can hardly suppose that the restoration of the coal mines to prosperity will follow automatically merely because they are transferred from private to public administration. But if the ardour of Labour Party leaders has cooled, that of the miners has been no less naturally increased by the troubles of the industry. There was a demand for the nationalisation of the mines even when they were affording comparatively high wages and good conditions to the miners; it will not be surprising if there is clamour from half-starved miners for the Labour Government to put everything right by taking the industry and its obligations into the hands of the State.

A false step, taken under external pressure, would be clearly a most serious matter, both as a possible cause of grave financial embarrassment and as an inevitable source of disappointment and disillusionment with the first-fruits of Socialist policy. It is therefore indispensable to get our plans for the coal mines absolutely right, and at the same time to make quite clear in advance the limitations of what is to be looked for from them.

Neither the State control here suggested, nor any other form of socialisation, will at once put the mining industry on its feet. No policy that can possibly be adopted will avail to put back into employment all the miners who have been forced out of

the industry during the past few years. It is necessary to make up our minds that a large proportion of these workers will never find employment in coal-mining again, and accordingly to provide work for them by the other means which have already been outlined. This is the first point which must be made as clear as possible in advance; for least of all can a Labour Government afford to hold out false hopes.

When this has been admitted, there remains the problem of the miners who are now in employment, or can reasonably look for re-employment in the pits. At present, these men are working too long hours, and getting too low wages. What will the Labour Government be able to do for them? It is pledged in advance to repeal the Eight Hours Act carried by the Conservatives in 1926. Now, it is clear that the passing of this Act was a colossal blunder; for it has furnished an excuse for the extension of hours in other European coal-fields which are in direct competition with ours. If, having lengthened hours in 1926 and so caused a lengthening elsewhere, we now revert to the seven-hour day, we shall inevitably place ourselves at a competitive disadvantage; for it will not be at all easy to get the continental countries to bring down their hours again in correspondence with our new change of policy. We shall therefore run the danger of either restricting by the change our ability to sell our coal in foreign markets, or of having to sell it at a loss, unless we can so improve the efficiency of the British coal trade as to reduce costs of production or marketing or both. This reduction is bound to take time, and meanwhile a serious difficulty will be likely to arise. Moreover, even if we do reduce costs, it is clear that the first reduction, up to a considerable amount, will have to be set off against the shortening of the working day, and will accordingly not be available for the urgent need to raise mining wages. In the long run, the economies are likely to avail for both; but it is in the short run that the difficulty will be felt.

These are highly unpalatable truths; but it is important that they should be squarely faced. If the Miners' Federation could be brought to agree, it would be far better to postpone for a limited period the complete return to the seven-hour working shift, and to content ourselves immediately with a reduction that will bring miners' hours into conformity, as they are not to-day, with the Washington Eight Hours Convention. The



interval could then be used by the new Mining Commission to endeavour to come to an agreement with the European coal-fields for an all-round reduction in hours. There would be quite a good chance of securing this; for the lengthening of hours has brought prosperity neither to the British nor to any other body of mine-owners. There is already a strong sentiment in Europe in favour of an attempt to get the coal problem tackled on international lines; and hours would be the most natural and the easiest part of the problem to begin upon.

It would, however, be a serious matter for the Labour Party to depart from the assurances it has given without the direct consent of the miners; and accordingly the Eight Hours Act may have to be repealed at once, even at the cost of making it far harder for us to negotiate for an international limitation. If this is the case, the miners will have to realise that what they get in shorter hours they cannot get in higher wages; for, until the reorganisation measures have had time to produce large-scale effects, there will not be the means both to reduce hours and to raise wages to a good living standard. If I were a miner, I think I would choose to have higher wages first, and postpone temporarily the return to a shorter working shift; but that is a question which the miners will have to settle for themselves. The Labour Government will be wise to put it fairly and squarely to them, and leave them to make their choice.

It may be suggested that the miners can have it both ways, if only the Labour Government will agree, in view of the special circumstances, to give the coal trade a temporary subsidy. I sincerely hope it will do nothing of the sort. Mr. Baldwin's subsidy of 1925 was no such conspicuous success as to encourage a repetition. It helped to keep up miners' wages for a few months, and it made the mine-owners a handsome present; but, so far from producing any lasting good effect on the conditions of the industry, it made matters worse by co-operating with other forces to bring coal prices down still further, and providing an additional argument to our continental competitors to drive down the wages and conditions of miners abroad. It has cost the miners in wages alone a good deal more since 1926 than it gave them during the few months of its operation. Doubtless, a subsidy administered by the new Coal Commissioners would be better managed; but it would still be a fundamental mistake. The

Labour Government will have no money to spare for throwing about subsidies, even to deeply depressed industries; for it can help these industries far more effectively in other ways. It will have to conserve its resources for helping real productive development. Loans it will have to make to the mining industry for the purposes of re-equipment and reorganisation; but these and many other ways of spending money will have to be given preference over any form of subsidy, direct or indirect. Miners' wages are far too low, and will have to be raised; but subsidies are the wrong way of raising them, and are only calculated to make their permanent improvement a harder problem.

The reorganisation of the coal mines will confront the incoming Labour Government as a problem that must be tackled at once. But coal is by no means the only industry that is in serious difficulties. The cotton trade, as we have seen, is staggering along under a load of debt which is crushing the life out of it; the railways, in face of road competition, are having much ado to make both ends meet; many of the great iron and steel firms and vertical concerns in the metal and shipbuilding trades are in deep financial trouble; and in other industries less in the public mind there are plenty of black spots. The Labour Government will have to be ready to intervene in order to put these industries, wherever it can, upon a sound basis; but it will have to beware of taking on an impossibly large programme of law-making and administration, and to cleave closely to the principle of first things first. Even if it makes the best possible use of its parliamentary time, it cannot hope to carry through more than a very small number of major Acts in any one session of Parliament; and it has therefore to aim at making each of its Acts go a long way. In particular, it will have to resist pressure from sectional groups among its supporters who wish to press upon it special measures, and stress the urgency of their claims without regard to the wider issues of Labour policy. The Labour Government will have to plan its entire programme with a keen sense both of social values and of the interrelation of its parts; and there will be no time to waste on measures, however admirable in themselves, which can afford to wait and do not make a vital contribution to the general task of social reconstruction.

The instance which I have now in mind is that of railway nationalisation. There is a strong case for completing the unifi-

cation begun in the Railways Act of 1921 by linking up the four great railway groups into a single national system under direct public control. But this question has not the immediate urgency of the mining problem. The present difficulties of the railways are rather their difficulties than the difficulties of the public; and, while economies could probably be achieved by unification, the prospect of them is neither so great nor so unquestionable as in the case of the mines. The Labour Government will have to deal with the railway question at the earliest convenient moment; but the delay of a year or two is neither here nor there. In especial, the railwaymen are not so badly off under the present system as to make it imperative to come to their rescue.

There is a most powerful further reason for not making undue haste to deal with the problem of the railways. At the moment, a great revolution is going on in the methods of transportation. Road transport is developing at a tremendous pace; and even transport by air has unpredictable possibilities for the near future. The railway companies have recently won a parliamentary victory in their demand for enlarged powers to act as carriers by road; and the contest between road and rail is entering upon a new phase. No one really knows yet how the issue between rival methods of transportation will be settled, or along what lines precisely the co-ordination of the various transport services—its obvious and logical outcome—ought to proceed. The State is directly an interested party; for, whereas the railways provide their own track at their own expense, the State and the local authorities are expected to provide the roads and to recover the cost by taxes, levied in part specially upon road-users but also partly upon the general body of tax-payers. Before long, clearly the State will have to take in hand the co-ordination and co-operative development of all the competing and complementary forms of inland transport—including inland waterways as well as road and rail. But the question is not yet ripe for legislative solution. It needs, at the least, full prior investigation. It will be, in all probability, when Labour comes to power, a matter rather for a strong Royal Commission than for an immediate Bill.

This delay need not worry us. The railways, under the Act of 1921, are already subject to a large measure of public control. Their rates are controlled, subject to certain statutory condi-

tions, by the Railway Rates Tribunal; their accounts have to be prepared and presented in certain prescribed forms; important changes in their policy are almost bound to require parliamentary sanction; and their labour problems are regulated by machinery set up under Act of Parliament. Nothing will go seriously wrong even if they are let alone for a while; nothing would go sensationally better if they were completely socialised at once.

When the time does come to deal with the railways, what is likely to be the best way? I can see no advantage in raising a great public loan in order to buy out the existing shareholders, and thus making the railways the direct property of the State. There is no need to disturb the ownership of railway capital, in order to achieve the desired results, any more than it was disturbed by the partial unification of 1921. The State then took compulsory powers to arrange the financial terms of amalgamation among the old companies, and old shareholders became the possessors of an equivalent value of shares in the new grouped companies. The next step is to complete unification by grouping the existing groups into one, with a further exchange of old shares for new shares in the one amalgamated railway concern.

But on this occasion, without changing the ownership of capital, the State must change the control, by taking the appointment of directors for the unified railway service into its own hands. The shareholders will still own the railways, but the State will in future control their administration. As in the case of the mines, already discussed, there will be a tendency, with the progressive taxation of wealth, for ownership also to pass gradually into the hands of the State. If it is desired to speed up the process, there is no reason why railway shareholders should not be given the right voluntarily to convert their shares, at the time of unification, into State bonds bearing a fixed interest, the terms of conversion being based, of course, on real and not nominal values. This conversion offer could be repeated at any time, on the basis of a revised valuation of railway capital and in accordance with the rate of interest at which the State was in a position to borrow at the time. But this is a matter of secondary concern. As in the case of the coal mines, what matters fundamentally is not ownership, but control of policy.

Indeed, this form of socialisation, without immediate change

in the ownership of the socialised service, but with an immediate and drastic change in its control, seems to me to offer all the advantages, and none of the disadvantages, of the older plans for the nationalisation of industry. It does not involve extensive State borrowings, or any new claim at all upon the capital market. It does not compel the State to assume the position of guaranteeing a fixed amount of profit, when no profits or less than the fixed amount may actually be forthcoming. It requires the minimum of disturbance of the existing conditions, and enables the existing units of business to be preserved wherever their preservation, either temporary or permanent, seems to be desirable. It minimises the dangers of a too rigid bureaucratic control, and avoids the unnecessary severance of links which bind businesses scheduled for socialisation to others left for the present in private hands. I doubt if there exists any industry (though there may be some services) which it is really desirable, at least in the immediate future, to nationalise quite in the old way.

The socialisation of mines and the socialisation of railways, in accordance with the new methods here suggested, are both parts of a wider process of co-ordinated socialisation, designed to bring the great connected services of power and transport under a unified control of policy. The Labour Party is undoubtedly right in suggesting that the particular controlling commissions which are set to administer mines, railways, electrical supply, and other power and transport services in the public interest will have to be linked together under, and to act as departments of, a unified Power and Transport Commission which will direct their general policy and deal with problems common to them. The relations between road and rail, between coal and electricity and gas and oil, between coal and railways and shipping, will all come within the scope of this unifying body's reference. Nor should the State delay in establishing this co-ordinating authority, even before all the lesser authorities which it is to co-ordinate have been called into being. For it will grow best and most efficiently if its powers and duties come to it gradually, with the reorganisation of the various services whose contributions to the public welfare it exists to unify and develop.

I envisage, then, one group of controlling Commissions, responsible for a number of services at various stages of socialisa-

tion, and co-ordinated by a Power and Transport Commission armed with wide general powers. To the Power and Transport Commission appeals would lie in many cases from the decisions of the subordinate commissions. If, for example, any controlled firm thought that the conditions imposed on it by the Coal Commission or the Electricity Board were unreasonable, it would be able to appeal to the Power and Transport Commission for a judgement on its case. The principles which socialisation ought to follow would be defined by the larger body; their execution in detail would be left in the hands of the separate bodies of commissioners. The latter would need to submit all their major plans to the Power and Transport Commission; and in particular all schemes which demanded the raising of new capital would require its sanction. The separate bodies of commissioners in return would have full access to the Power and Transport Commission. They would not be represented upon it; for it would be a small body of full-time experts in the various problems with which it had to deal. But when it discussed coal or electricity or the railways, a commissioner from the service concerned could be given the right to sit with it and join in its deliberations.

The Power and Transport Commission, with the bodies of lesser commissioners connected with it, would thus become an influence of the first importance in organising the economic life of Great Britain. Its sphere of action, however, would be confined to one great group of industries, and it would have no direct concern with the various manufacturing trades, although its successful functioning would be of vital interest to them. The efficiency of the power and transport services underlies the success of manufacturing industry. It was Great Britain's successful exploitation of coal, and her early development of canal and railway services, that assured her economic supremacy in the nineteenth century; and the development of cheap power and cheap transport is essential to her prosperity in the twentieth century as well.

Manufacturing industry, however, while it can be helped to its feet by the provision of better transport facilities and cheaper power supply, will need also special stimulations to be applied directly to it. In the chapter dealing with the abolition of unemployment, it has been suggested that one great means of reviving productive industry will be by a policy of well-directed loans and

by a deliberate guidance of new capital into the right channels. This policy, it has been proposed, should be guided by a Board of National Investment, with large resources at its disposal, empowered to act as a sort of national Investment Trust on behalf of the public. This Board of National Investment would be related to other productive industries much as the Power and Transport Commission would be related to the special group of services within its scope. It too would have working under it subordinate commissions dealing with particular manufacturing trades, and acting in accordance with general principles laid down by it, and subject to its co-ordinating control. While, for example, the Investment Board might make loans directly to manufacturing establishments in isolated cases, and deal directly with the great concerns whose operations transcend industrial boundaries, it would need, whenever any one industry called for substantial help and reorganisation, to create for this purpose a special organisation commanding the necessary expert knowledge to do the job with full efficiency.

Again, the case of the cotton trade will serve for an example. It would be impossible for the Board of National Investment to deal directly with all the complicated problems that would arise in putting Lancashire's leading industry again on its feet. It would have, therefore, to act through a Cotton Control Commission consisting of full-time experts, and to place large powers in the hands of this body. The Cotton Control Commission would thus become, in a degree, the advance guard of the policy of socialisation in the cotton trade; and it would be possible, with the minimum of dislocation, to advance gradually from its powers of supervision and control of policy over the firms assisted by it to the fullest measure of social control and ownership that might prove to be desirable in the long run. And this method, with the necessary changes to adapt it to the varying circumstances of different trades, could be applied, as widely as may be desired, to one manufacturing industry after another. The problems of the iron and steel trades, for example, could be tackled in due course by largely similar methods.

The socialisation of industry, restated in these new terms, comes to be envisaged less as a single measure applied once and for all to any particular industry or service than as a progressive transformation of capitalist industrialism into a Socialist system.

The emphasis shifts from ownership to control; and the change involves an immense practical adaptation of policy. Above all, it serves to minimise the difficulties of the transition. When Socialists thought of socialisation as advancing by means of a long series of Acts of Parliament, each transferring a particular industry from private to public ownership, and each involving both delicate manipulations of the money market and a sudden change of administrative system, the possible rate of progress towards Socialism appeared so slow as to act as a terrible discouragement to belief in its efficiency as a practical solution of pressing economic problems. There were a dozen industries that needed tackling at once; but it seemed as if Socialism could only tackle them one at a time, and as if the reorganisation of many services would have to be postponed to the Greek Kalends. Moreover, it was seen to be no simple matter to deal with one industry at a time, because the boundaries of industries were uncertain and shifting, and because measures adopted to deal with one industry were bound to have powerful reactions upon others.

The new forms of socialisation here suggested greatly simplify the problem, by shifting the onus of the change mainly from the legislative to the administrative sphere. For, whereas legislation, owing to the exigencies of parliamentary business, can take only one step at a time, administration can take many. The individual steps may be smaller; but their cumulative effect is far more considerable. The vital thing for the immediate future is not to nationalise completely, in the old sense, one or two industries, but to create machinery which will make possible, without the need for a great mass of further legislation, the progressive administrative socialisation of any industry that needs reorganisation in the public interest. In plain terms, the indispensable next step in Socialist economic policy is to get the National Investment Board and the Coal and Power Commission into being, and to arm them both with powers wide enough to carry through, over a period of years, the tasks suggested for them in this chapter. These powers must, of course, include the authority, subject to some simple form of public sanction, such as a resolution of the House of Commons, to set up subordinate controlling boards or commissions for any trade or service falling within their respective fields of action.



Doubtless, there has been in the reader's mind, throughout this discussion, the question how these powerful boards and commissions will be related to Parliament, and themselves controlled in the light of a broad conception of general public policy. Their relations with the workers in industry will be discussed in the next chapter; here the question is of their relation to the Government and to the elected representatives of the community. Many Socialists, in the name of democratic principle, will doubtless express the fear that the creation of this great network of administrative machinery will in effect give us Socialism without democracy, and place society in the hands of the expert rather than of the representatives of the ordinary man.

Industry touches the ordinary man in two ways—as producer and as consumer. As a worker, he is directly interested in the conditions of his working life, and the quality and character of his job. This is the question to be discussed in the next chapter. As consumer, he is interested in getting the world's work done with the least possible expenditure of effort, in order that he may have as much as possible of the material goods of life. The consumer's interest in industry is therefore above all an interest in its efficient conduct. He is, indeed, also very directly concerned with the distribution of its product—with the arrangement of the forces that determine the distribution of the social income. But with the actual processes of production he has, *as consumer*, no concern, save to assure that they shall be as up-to-date and efficient as possible. He has, of course, in addition the responsibility, as citizen, of assuring himself that production is carried on with a reasonable regard to human health and welfare.

This means that, subject to a broad control of economic policy and a continuous public scrutiny of the results achieved, the consumer will find his best interest in getting industrial administration into the hands of those who are most competent to conduct it. He has, indeed, to secure that the work of production shall not be interrupted unnecessarily by internal friction, and the assurance of the right conditions to the producers therefore concerns him as consumer as well as citizen. But, given this, he does not need to run industry, or to insist on its administration by representative bodies elected by all the citizens. His best course is to devolve industrial administration, as distinct

from policy control, upon the expert; and this the system of boards and commissions proposed in this chapter is designed to secure.

The expert, however, while he must be given wide powers, must never be irresponsible. Nor, as we have seen, will it do for the representatives of the public to let him alone most of the time and merely chivy him now and then by spasmodic incursions into his sphere of action. Continuous scrutiny of the work of all the expert bodies entrusted with administrative functions is undoubtedly indispensable.

How is this to be secured? Above all, as Mr. and Mrs. Sidney Webb have again and again insisted, by 'measurement and publicity'. The various boards and commissions must make and publish regular and detailed reports of their work, and provide the fullest possible statistical and other data relating to the industries which they control. There must be, as an integral part of the State system of co-ordination and control, an independent department of public audit and inspection, officered by some of the best economic brains in the community. This body must have power to order an independent investigation into the affairs of any industry or department, and to report to Parliament its findings. Parliament, in its turn, must devise means for giving more continuous attention to the affairs of the extra-parliamentary boards and commissions for whose doings it is ultimately responsible. There must be a separate annual budget of industrial and trading services, under which the expenditure of these bodies will receive public authorisation. The heads of the various boards, while they will not sit in Parliament, might well appear before Parliament at least once in each year, and at any time in response to a special summons, in order to explain the affairs of their departments, and publicly meet criticisms. And, finally, Parliament should appoint a standing committee on economic affairs, available for regular consultation by both the Power and Transport Commission and the Board of National Investment; and through this body the continuous conformity of the expert bodies with the will of Parliament on broad questions of economic policy should be assured. This Standing Committee, moreover, should be in a position to deal rapidly with all proposals brought up by the Board or the Commission needing special parliamentary sanction, and should thus in some measure

remove the necessity for legislation on minor questions, and do away with a good deal of the cumbrous and costly private Bill legislation which now often serves to impede economic development.

It is, of course, to be remembered that we are dealing with proposals for a state of transition, and not in any sense with the completed economic arrangements of a new social order. The new economic structure of society will be built up gradually, and will carry with it a progressive rearrangement of social forces. To predict the precise form of the ultimate adjustments is neither possible nor necessary at the present stage. It is easy to see that the mechanism of parliamentary government, as we know it, will have to be radically transformed if it is to meet the needs of a new economic and social system. The Parliament of the future will be a different body, with new functions and new forms of procedure. Perhaps it will scarcely be recognisable as the successor of the Parliament we know. But, whatever may be the character of these ultimate transformations, we are not concerned with them here. Our business is with the happenings of the next ten years or so; and, over that period at least, the problem is one of fitting the new economic organisation of society in with its existing mechanism of parliamentary government, and not of devising any brand-new substitute for our present political institutions. The more these can be transformed from within the better; but there is no question of scrapping or drastically remodelling them just yet.

We need not, then, for our present purpose even consider the relative merits of the various plans that have been put forward for the complete reorganisation of the political structure. The social federalism of the Guild Socialists and the twin Social and Political Parliaments of Mr. and Mrs. Sidney Webb are, for the immediate future, equally beside the point. The concern of the next Labour Government will be, not to devise a new or perfect constitution, but to apply its power to immediate and practical ends of economic reorganisation. It will have to show quick results; for by them it will be judged, and upon them will depend its chance of proceeding to larger adventures. This is both because on no other terms is it likely to command popular support, and because it will be called upon to take command of a badly leaking ship, and its first duty will be, not to devise improve-

ments in the art of shipbuilding, but to summon all hands to the pump and mend the leak.

The projects outlined in this chapter are to be read, then, not as contributions to the vision of a Socialist Utopia, but as practical proposals for dealing with an immediate social crisis. They are so designed as to fit in with the evolution of a Socialist system, but not for the sake of that evolution. Their aim is to rescue economic society from a perilous situation of anarchy and decline. That they contribute also to the building of Socialism is, of course, no accident: it arises from the fact that Socialism is, in the long run, the practical answer to the world's need. But we cannot, on this account, afford to subordinate immediate claims to the achievement of Socialism. We shall never get a chance of building Socialism unless we carry with us in the process the consent of the ordinary man. And he, very naturally, takes short views. It is the final justification of the Socialist doctrine that, on the whole, Socialist long views, in their practical applications, coincide with his short ones. We can be at once opportunist and constructive; but we must never, in the search for constructiveness, forget the need for building on the opportunities of the moment, or of offering the plain man realities and not mere promises post-dated to the Socialist future. If we do that, he will prefer Toryism, or, more probably, decide that all forms of politics are a 'wash-out', and that he had better cultivate his garden in future instead of bothering his head further about them. That, from the capitalist standpoint, will be as good as a conversion; for, when the ordinary man despairs of politics, the 'busy rich' are safe to have matters all their own way.

## CHAPTER VIII

### WORKERS' CONTROL

Rationalisation and workers' control—Guild Socialism—The influence of war conditions on the demand for control—The shop stewards' movement—The effects of the slump—How far do the workers want control?—Guild Socialism reconsidered—Where it was in the right—Industrial Psychology and Welfare Work—The German Works Councils—A Works Councils Act needed for Great Britain—The Councils to be linked up with the Trade Unions—The case for 'collective contract'—And for a system of Industrial Courts—Democracy and representation distinguished—Their respective spheres defined—Guild Socialism again considered—The position of Trade Unionism in the new industrial order—The Washington Hours Convention and the International Labour Organisation—Industrial legislation and the Trade Unions—Scope for 'Guild' enterprise—Aided by State credits—The State and the Co-operative Movement—Need for diverse forms of enterprise co-ordinated under public control.

WHAT is to be the position of the ordinary worker under the new industrialism? The insistence laid in the foregoing chapters on the need for the rationalisation of industry under expert administration plainly demands a definite answer to this question. For if one kind of rationalisation is to be the policy of Socialism, as another is now that of progressive capitalism, will even Socialism really give the worker what he wants? Will he not be, in the oft-repeated phrase, as much a wage-slave under a Socialism economy as he is now under the capitalist system?

Only a few years ago the world was resounding with the demand for workers' control in industry—a demand which assumed its most definite form in Guild Socialism, and became specially insistent during and immediately after the War. Guild Socialism as a theory found practical confirmation of its point of view in various movements which rose up spontaneously among the rank and file of the workers. The labour unrest of

the years before the War generated the demand; and during the War the shop stewards' movement in particular seemed to give it practical form and substance. The continual changes made necessary by the transformation of industry to meet war needs, the resistance of the Trade Unions to the suspension in the workshops of their cherished rules and customs, and the ferment of ideas created by the sense of abnormality and insecurity which characterised the war period, all found expression in the demand for 'workers control'; and the scarcity of labour afforded the opportunity for giving practical shape to the demand. Then the War ended. The industries which had been inflated in order to meet war needs shrank up; the scarcity of labour disappeared; and the active shop steward either got the sack, or greatly modified his activities in the hope of avoiding it. Rapidly the shop stewards' movement practically disappeared as an active social force, leaving behind, in the official recognition given to workshop delegates and committees in the engineering and other industries, only a pale shadow of its militant past. The demand for workers' control lived on, and was vigorously expressed in the post-war programme of many Trade Unions, and especially of the Miners' Federation. The building trades operatives, largely under middle-class inspiration, founded Building Guilds and had a brief run of success before they were overwhelmed by the general slump and its reaction on Government policy. But not one of these movements, as a practical force making for a new industrial policy, was able to outlast the great depression which, in 1921, swept over the whole economic system of Great Britain.

With the coming of the slump, the demand for workers' control, though it remained a feature of the political and industrial programmes into which it had forced its way at an earlier stage, ceased to figure effectively in immediate Trade Union policy. The Unions were fighting, not to make fresh gains, but to hold what they had, and it was of no use to preach to them policies which had no chance of success under the existing economic conditions. Guild Socialism passed under a cloud, not because the National Building Guild collapsed, but because it ceased to have any relevance to the immediate situation which the working classes were compelled to face.

It is, however, important to realise that this occurred, not

because the Guild Socialists were wrong in their essential claim, but because circumstances were too much for them. Workers' control is none the less important because it becomes temporarily more difficult to secure; and Socialists, in framing and executing their new policy of socialised control of production, will have to recognise as one of the major problems of industrialism, the claim of the worker as producer to a real share in the control of industry.

We must, then, consider how far workers' control ought to form a part of the new system of industrial administration which we are trying to work out, and what are the immediate steps that can be taken towards giving the worker, as producer, a new status in industry. The former question comes first, not because we are trying to sketch out any complete picture of industry under Socialism, but because it will be useless to make any provision for workers' control which the worker will not have the desire to use. Democracy is only a good system of government for people who are democratically minded, or to the extent that they are prepared to make use of the opportunities which democracy confers. If the workman does not want control, the attempt to give it him will only result in the creation of useless and unworkable machinery. It will annoy the experts, without satisfying the ordinary people. We have therefore first to ask whether the worker wants control at all, and then, if we hold that he does, what sort of control he wants.

I am fully aware that, in this chapter, I am going to unsay a good deal that I have said—and said with as strong a conviction of rightness—in the past. It is perhaps worth while to explain wherein the difference of attitude lies. When I look back at my earlier books, they seem to me to be dominated by the idea of government as a moral discipline. It is good to be free, I argued, and therefore men ought to be free whether they wish it or not. So far I would still go; but I used to push the doctrine to logical conclusions which now seem to me to provide no solid basis for practical building of policy. Men must be forced to be free, I used to urge; and I added that they should be forced to use their freedom in the particular ways that appealed to me. The idea of work under an externally imposed discipline was repellent to me in my own crafts of writing and teaching; and I therefore assumed that it ought to be repellent to everybody, whatever the character of his job and whatever the cast of his own mind

might be. I despaired of making most work interesting in itself, in the way in which my own work interests me; and I sought to find a substitute for this inherent interest in the adventitious interest of collectively controlling a naturally uninteresting job. I ignored the fact that most men's daily work is dull, and that, provided it is not positively irksome, they do not even want to find in it the overmastering interest which I find in my own job. They have other fish to fry; but of that I did not take proper account. Self-government—the conscious and continuous exercise of the art of citizenship—seemed to me not merely a good in itself—which it is—but *the* good—which it is not. Accordingly, I constructed, along with other politically minded persons—a politically minded person's Utopia of which, if it could ever exist, the ordinary man would certainly make hay by refusing to behave in the manner expected of him.

In fact, of course, this Utopia could not exist at all. The machinery devised for it might conceivably be called into existence; but it would not work. Asked to elect masses of committees to perform all manner of representative functions on their behalf, and to keep their delegates constantly up to the scratch by persistent attention to their doings, the mass of factory workers would speedily settle the question for themselves by not bothering to vote, and the committees would die of inanition. They might last as long as there was an enemy—capitalism—for them to fight; but, when they had abolished capitalism, they would go quietly to sleep, and leave industrial administration to those whose tastes and capacities lay that way.

This is a substantial recantation; but it is not a repudiation of the Guild Socialist view as a whole. It repudiates, not the Guild idea, but the later excesses of Guild Socialist system-making, for which I accept my full share of the blame. Guild Socialism took the wrong turning when it ceased to be an idea and aimed at being a system. Then the life went out of it, and, after a brief period of really formative influence, it faded rapidly away.

What remains sound and alive in the Guild idea is, above all, its insistence that the worker, as a worker, must be treated as a human being, and not as a mere factory hand. What is sound, too, is the insistence that the conditions under which a man works go far towards determining what sort of man he becomes, and how he behaves both politically and as an individual in his



hours of leisure. What is sound finally is the view that to lead men is better than to drive them, that industrial leadership accordingly demands large qualities of human understanding as well as of technical expertness, and that the administrative designs of the technician must be constantly checked and corrected by the reactions of the ordinary man to whom he issues commands.

Something of this is, of course, increasingly recognised even by modern capitalism. For, as rationalisation and scientific management remove the last vestiges of variety and initiative from the daily labour of more and more of the industrial workers, it becomes imperative for the employer to seek for means of correcting the malaise which the irksomeness of modern production sets up in their minds. Industrial Psychology, as we have seen, contributes its suggestions, which some employers accept, but far more at present ignore. Rest-pauses, shifts of job, and other ways of breaking the monotony of labour are introduced; and more and more, 'welfare work' ceases to be the monopoly of philanthropic Quakers, and is taken up by other hard-headed business men as a thing that pays. Canteens and sports clubs are multiplied and improved; and everything is tried to arouse in the workers' mind a sense of loyalty to the factory, and get his mind to connect it with the pleasant associations of social activities as well as with the irksomeness of toil.

Capitalism, as a rule, adopts these methods from motives of self-interest, and pushes them at most only to the point beyond which they cease to pay. There are, of course, exceptions to this; but it may be taken as generally true. Indeed, most employers are still far too unimaginative to realise how far it would pay them to take up 'side-shows' of these kinds. Industry as a whole, even from the strictest profit-making standpoint, still stops in them far short of the point of maximum return. Nor has the State, in the services which it conducts, shown itself even as imaginative as the better type of employer.

Sometimes, 'welfare work', and similar methods of counter-acting the irksomeness of factory life, are dismissed by Socialists as evil, simply because they pay the employer. On the contrary, that is one of their merits; for they pay because they make work more efficient as well as less irksome. What is wrong with them is not that they pay, but that, in the hands of the clever employer,

they become means of getting far too complete a control over the workers employed. A man from Bournville can often be told not because his hands or clothes are stained with cocoa—for cleanliness is inculcated as one of the major virtues—but because he has Cadbury's chocolate smeared all over his mind. The factory has captured his leisure as well as his working hours: it has got him, body and soul.

Even so, he is far better off than many of his fellows. He has a higher standard of personal living, and a greater possibility of satisfying it, than the mass of workers in occupations of comparable skill. The bad thing about Bournville is not the welfare; it is the presence of a divine providence named Cadbury as the presiding genius, and the attempt to create a 'Cadbury-complex' in the minds of a large number of persons who ought to be given the chance of living their lives in their own way. The Socialist State will have no such motives and no such chances as private capitalism for the building up of 'complexes' round particular factories and places of work. It will want the worker to do a fair day's work; but it will not want to make his whole life centre round the factory. It will therefore naturally leave him more free to go his own way, and to develop his personality along the lines that happen to appeal to him.

But the Socialist factory will have plenty of welfare work, and will use to the full the help of Industrial Psychology in lightening the load of toil. And this is where, primarily, workers' control comes in. For, even if the workman is not interested in his work, he is directly and inevitably interested in the conditions under which it has to be done. He will not want to usurp the place of the expert in dictating the technical course of production; but he will want to protest vigorously, and to get the expert's immediate attention, if the latter's plans conflict with his own comfort. No expert, not even the expert in Industrial Psychology, can be trusted to do the best for the workers in matters of this sort. The workers themselves must be given every chance of making their own claims and criticisms effectively heard.

This, as the Germans since the War have recognised, in theory if not in practice, by means of their Works Councils law, is one important sphere for workers' control in industry. There should be, in every industrial plant employing more than a hand-

ful of persons, some sort of Works Council, chosen by the whole body of workers in the plant and representative of the different grades and sections. This Council should be a statutory body, either set up, as in Germany, under a special Act of Parliament, or created as an integral part of the system of State control outlined in the preceding chapter. Its institution should be compulsory, in both private and publicly owned undertakings; and it should be not merely advisory, but armed with definite, if limited, powers of appeal against the decisions of the management in all matters affecting the working conditions of the employees. In particular, it should have a right of appeal to some authority external not only to the factory, but also to the industry concerned, against dismissals, against the appointment or continuance in office of foremen or supervisors who fail to 'hit it off' with those over whom they have to exercise authority, and against the introduction into the factory of working conditions inimical to the workers' health or welfare. It is not proposed that in these matters the workers should have final or absolute control; but it is proposed to take away the final control now vested in the management, and to give to the workers a fully recognised right of appeal.

The machinery of Trade Unionism will need to be closely linked up with these Works Councils. The experts whom, it was suggested earlier, the Unions will have to employ in increasing numbers, will need to be at the Councils' disposal for advice and help in putting the workers' case before the experts of the management. And it will be a function of the Trade Unions to foster a common policy among Works Councils in dealing with similar situations and upholding important principles against managements neglectful of the convenience of the ordinary worker.

The bodies here suggested are, it should be noted, not Joint Councils representing management and employees, but bodies of workers only. They will, of course, have to meet with the management from time to time. But their essential purpose is the free expression of the desires and criticisms of the ordinary workers in industry; and for this it is essential that they should consist exclusively of workers' nominees.

An early measure of the next Labour Government should be the enactment of a Works Council law conferring these powers,

and making the institution of Councils a statutory right of the workers in every considerable plant. In this law, it will be necessary to safeguard the close relation of the Councils to the Trade Unions and to insert guarantees against their abuse by employers desiring to exploit them in connection with 'company Unions', 'non-political Unions', or similar misshapen products of capitalist intrigue. The law should further be so framed as to make it easy to confer additional powers on the Councils subsequently, in the event of their solving successfully the initial problems presented to them.

This measure, necessary as a foundation, is by no means the whole of the workers' control, even within the factory, that will be a necessary element in the new industrial order. It has been suggested that, in many factories, a notable result of modern productive technique has been to shift the emphasis from the individual to the group, so that, for example, systems of individual payment by results are becoming obsolete, and collective systems tending to take their place. This points to another practical issue on which the Guild Socialists had hold of the right end of the stick. For they advocated, even before the new tendency had become so clear, a system of 'collective contract' which is manifestly becoming easier to adopt under the new conditions. 'Collective contract' meant a system under which the employer, instead of paying each worker individually, would pay the entire group for its collective output.<sup>1</sup> But it meant more than this; for an essential part of it was that the discipline of work within the group should be undertaken by the group itself. The group would thus choose its own supervisors, as some small groups do already on squad work, and would act co-operatively in carrying out the quota of work agreed upon between its representatives and the managerial authority. This proposal was

<sup>1</sup> It is, of course, indispensable in any scheme of 'collective contract' to safeguard the payment of the standard rates set up by collective bargaining. It is a recognised Trade Union principle in many trades that workers under systems of payment by results should have their hourly, daily, or weekly time-rates of wages guaranteed, irrespective of output. It would be necessary to insist that this safeguard should apply individually to all workers under systems of 'collective contract', as it is already applied in many cases where ordinary collective piece-work is in operation. Both 'collective contract' and collective piece-work are, of course, totally distinct from the old sub-contract and 'piece-master' systems, to which the Trade Unions have always had, rightly, the strongest objection.

designed to remove the irksomeness of an externally imposed discipline, and to introduce into the common labour of the group an atmosphere of greater freedom and mutual interest.

It is not suggested that this method of work should be imposed compulsorily on any group that does not want it, but only that the Works Councils should be given authority to enter into arrangements of this sort, and that it should be the policy of the State to encourage them in industries and establishments under its control. If the workers do not want them, they will not be made, or at least will not survive the experimental stage. But it may well prove that many workers do want them, and that work conducted under these conditions can be made less irksome than work under direct and detailed managerial control.

The proposals made above relate exclusively to the workshop—or, of course, to the analogous groups in mines, in building and transport and in other services not conducted under factory conditions. The workshop is above all the sphere within which the ordinary workman will be able, and is likely to desire, to exert a real control over the conditions of his working life. Trade Unionism has always suffered because—except in a few cases, of which the printers' chapel is the outstanding example—it has not succeeded in establishing, in face of capitalist opposition, effective machinery of its own inside the workshop. The importance of the check-weighman in the coal mines in holding the miners' organisation together indicates that here is a real need, requiring statutory sanction if it is to be effectively met; for the right of the miners to appoint their check-weighman was strenuously fought by employers until it was given the decisive endorsement of an Act of Parliament. The check-weighman, it is true, is an individual and not a committee, though he has commonly behind him a pit committee of some sort, usually the local miners' lodge. If an individual is, on this analogy, likely to do the actual work of representing the men's point of view better than a committee, there is no reason why this course should not be adopted in other industries as well. If the workers prefer, the Works Council can consist of a single person—a Works Representative chosen by the whole body of workers in the shop; or the Council, while preserving its representative character, can appoint a full-time officer of its own, and entrust him with wide powers to act on its behalf.

There is, however, an important field, wider than the single workshop or factory, for the exercise of workers' control. Reasons have been given for rejecting the representative principle in the appointment of the boards and commissions responsible for industrial administration. But there is every reason why these boards should at regular intervals meet in consultation the representatives of all the Works Councils within the industries which they control, and why these representatives should be given, not merely advisory functions, but definite, if limited, powers of appeal against the decisions of the expert commissioners on matters affecting the conditions of work. Regional machinery of the same type is also likely to be needed in many industries. Indeed, there must be at every stage both consultation and power of appeal on all matters affecting the workers' comfort. The system of Councils now existing on the railways and in the industrial departments of the Government, as well as the tentative experiments of certain big private employers along the same lines, have something in common with the proposal here advanced. But, whereas the existing Councils are mostly joint bodies, the proposed Councils will consist of workers only; and whereas the former are purely advisory, the latter will have definite powers of appeal to an outside authority.

The nature of this outside authority is plainly of the greatest importance; for it will have to be created side by side with the Works Council machinery, which cannot function effectively without it. What is envisaged is something in the nature of a system of quasi-judicial Industrial Courts, such as have been often suggested for other purposes. These should be, not representative bodies on the 'employer-workman-impartial-chairman' model, but courts presided over by a single stipendiary officer, chosen for his close acquaintance and sympathy with the workers' point of view. An Industrial Appeal Court would, of course, be needed, and would serve also as a court of first instance for dealing with cases of more than local concern.<sup>1</sup>

One essential function of the representative machinery here

<sup>1</sup> It is, I hope, clear that this body has no relation to the Industrial Court set up under the Industrial Courts Act of 1919. It is intended to be, not a tribunal for settling trade disputes, but a judicial body dealing with matters of industrial law, such as breach of contract, unlawful fines and dismissals, breaches of minimum wage or factory legislation, and the like. It is not suggested that it should have anything to do with trade disputes as such.

proposed will be to promote the improvement of factory and similar legislation. The modern factory code is still woefully behind the times, not only because every improvement in it is fought strenuously by the main body of employers, but also because it has been devised in the main without sufficiently close contact with those to whom it is to apply. The Works Councils and the wider bodies based upon them will have first-hand knowledge of factory conditions, and will enable the Trade Unions, more effectively than at present, to tell Parliament where the shoe pinches, and to propose means of remedying grievances arising from remediable causes. For these and for other purposes, there is certainly room for a body, representative of the Trade Union movement as a whole, and so constituted as to be in close touch with the Works Councils, empowered to draft proposals for legislation, and, with expert help, cast them into the form of actual Bills and present them to Parliament for endorsement. Just as the recent Prayer Book measure was sent up from the National Assembly of the Church of England, so the delegates of the factory workers should have the right to send up their proposals; and Parliament should have, of course, the same right of rejection or amendment. Again, it is perhaps necessary to make clear that what is proposed is not any sort of joint body representing employers and employed, but one consisting exclusively of workers—that is, of the actual persons who have to experience in their daily lives the conditions of employment in the factories. These have not the right to say absolutely what shall be the conditions of their work; but they have the fullest right, without any participation by employers, to ask Parliament to consider their grievances; and this alone is here proposed.

The principle underlying the suggestions made in this chapter is, I hope, clear. It rests upon a sharp distinction between democracy and representation, which the development of political communities during the modern period has tangled up together in men's minds. Representation is, in some spheres of action, a necessary instrument of democracy; but it is not the sole instrument, and it is fully possible, in many spheres, to have real democracy without representation. Representative institutions are good, not in themselves, but for their effects; and, applied inappropriately, they may become thoroughly undemo-

cratic in their working. For democracy implies, not that the whole body administers, or even appoints delegates to administer, but that it has effective means of insisting on the sort of administration that meets its needs. In the general government of political societies, no substitute for representation in securing this result has been, or probably can be, achieved. The business of law-making must be placed in the hands of popular representatives because there is no other way of securing that the laws will even tolerably meet the needs of the ordinary man. Representative assemblies, even when they are elected on the widest franchise, are very far from achieving this in full, and cannot be expected to achieve it with even reasonable success as long as there remain in the community huge differences of wealth, making inevitable the wangling of the electoral machinery and the poisoning of the sources of public opinion. But these imperfections of popular representation are reasons not for discarding it but for giving it a better chance to work out rightly by establishing economic equality as its basis.

It does not, however, follow because a representative Parliament or assembly of some sort is the best working solution of the central problem of law-making, that the more widely we diffuse representative institutions through the rest of the activities of Society, the more democratic we shall be making it. For the same reasons do not apply. The people must make laws through representatives because they cannot, in practice, make them directly, and because law-making is the ultimate determinant of social policy. The laws, and the opinions which give rise to them, are indeed shaped in the last resort by the economic forces with which society has to deal—by the material forces at men's command, and by men's knowledge of how to use these forces. But the law registers the collective determinations of society about the organisation of its social and economic forces; and the ordinary man must therefore keep its making as nearly as practicable in his own hands.

Under the law, the problems of social action are problems of administration. When the broad lines of policy have been laid down, the next thing is to get them carried into effect with the greatest possible efficiency, or, what is the same thing, with the least possible expenditure of human effort in relation to the results achieved. All representative machinery needs, for its suc-



cessful working, a considerable expenditure of human effort. It must not therefore be wasted on things that can be done as well without it, if the energy of society is to be conserved for really important matters. Society must economise the efforts which it demands from its citizens in the exercise of the art of government, and must leave as much as possible of their energies free for those arts of life which need government to sustain them, but have no other concern with its doings.

The administration of industry is, as we have seen, a technical business, concerned with the production of material goods at the least practicable cost in human effort. It is therefore not suited for the application of the representative principle in its main operations. But the practice of industrialism touches the lives and affects the happiness of men at so many points that it cannot be treated as a technical problem only. Industry must be administered by full-time experts; but, in addition to the broad control of policy exercised by the supreme representative institutions of society, the actions of these experts will need to be constantly guided and corrected by the voice of the ordinary people whose labour they have to organise and control. In this process of guidance and correction, the representative principle has again to be invoked. The Works Council and the larger representative bodies suggested earlier in this chapter are the best available means of ensuring that the expert shall know how his devices for economising effort in production really strike the ordinary man. He may find that, when he believes himself to have cut down the labour involved in doing a particular job by ten minutes in the hour, he has really increased it, because into the fifty minutes is crowded more than an hour of irksomeness and strain. It is vital that he should know this, and that the workers should have means of bringing it home to him and appealing from his judgement to that of some authority able to take an independent view. In nine cases out of ten, it is probable that the economy of time can, by the use of the right means, be achieved without the increased strain or unpleasantness. But the expert will very likely not see this unless he is made to see it by the provision of the necessary means of expression for the ordinary man. Or, if he does see it, he is likely to be aroused to it only by a strike, or some other incident involving serious friction and great waste of effort.

The representative principle must, therefore, be used in order to provide for the continuous co-operation of the ordinary worker in shaping the conditions of his job, both in the workshop and over the wider field of industry as a whole. But, even in these spheres, representative machinery must be used with economy. We must not set up committees for their own sake, or suppose that effective workers' control increases in accordance with the number of committees we succeed in getting established. Where one man can do a job as well as several, let one man do it. Let us allow full scope for check-weighmen, works representatives, and the like, as well as for Works Councils and committees of different sorts. We must do this, not merely because one man, especially the right man, can be quite as representative as a dozen, but also because, whenever a problem can be reduced from one of law-making or the defining of principles to one of administration, it is in process of passing out of the sphere in which representation is the appropriate method of dealing with it into that in which it becomes an expert job. The more society can get agreement on principles of action, and the more the lines of industrial policy can be settled by consent, the less will representation be needed, and the wider will the field for expert administration become.

A society which has reduced its need for representative institutions to a minimum will not be of necessity less democratic than one which is honeycombed with them. Indeed, it stands an excellent chance of being far more democratic if its representative bodies have withered away as redundant and not been destroyed as dangerous to the interests in control. A multiplication of representative machinery is necessary when things are going wrong; for then ordinary people cannot afford to spare effort in putting them right. But the righter things political are, the less need to expend effort upon them. The art of living is, in itself, so much more worth while.

How far is this view subversive of the Guild Socialist position? Far less than might at first appear. For Guild Socialism, though it branched out (partly *mea culpa*) into a theory of representation run mad, was not at bottom anything of the sort. It was right, as we have seen, in its insistence on the need for special measures of workers' control to safeguard the position of the ordinary man as producer. But it was right also in another

matter of fully equal importance—in its insistence on the need for separating the economic from the political institutions of society in their administrative conduct. It has killed dead—and justly killed—the old Collectivism which thought of the mechanism of nationalisation as a mere extension of the political government of the State, and proposed to hand over the running of industries to Civil Service departments under political heads. That notion is safely buried; and every Socialist who is not merely antediluvian now recognises that the growth of socialisation involves the development of a totally new technique of public industrial administration and control. Guild Socialists went wrong in desiring to base this new technique wholly on the representative principle; but they were thoroughly right in insisting on its necessity. The new socialisation, based on expert boards or commissions of full-time administrators, checked and guided by largely representative workers' bodies from below, conserves all that was valuable in the Guild Socialist plans for the reorganisation of industries under public control. It concedes the essential principle of industrial self-government—the functional principle, in Guild Socialist language; and it concedes the realities of democratic control for which the Guild Socialists were contending.

This view of the industrial problem has obvious morals alike for a Labour Government and for the Trade Unions. The object of industrial reorganisation is to make the operation of the processes of production as far as possible automatic, to eliminate unnecessary friction, and to save us all from troubling our heads more than we need about them outside our actual hours of work. Under the capitalist system, strikes and unrest may serve a useful purpose by arousing the country to the need for a changed economic order, and by keeping the spirit of the workers alive under depressing and enervating conditions of labour. But the object of Socialism is, if not to abolish strikes and unrest, at any rate to reduce them to occasional reactions against particular hitches in an economic process which on the whole works evenly and smoothly. This does not mean that Socialism will remove the need for Trade Unions, though Trade Unions will, as we have seen, probably tend, in consequence of the changes in industrial technique and organisation, to arouse less active loyalty in the worker's mind. It does mean

that Trade Unionism will change its character, and, in common with the change in the economic order as a whole, become no longer the half-articulate expression of an exploited class, but a valuable piece of social machinery, concerned rather with social and negotiating than with militant activities, and, in its industrial aspect, providing rather a storehouse of technical advice based on research concerning the means of lightening the task of labour than of leadership for the now necessary activities of social revolt. This does not mean that a Labour Government ought to prohibit strikes—indeed, one of its first steps must be to repeal the repressive Trade Unions and Trade Disputes Act passed by its capitalist predecessor. It should allow scope for strike action, but at the same time seek to render it unnecessary by providing alternate outlets for the workers' claims. One vital aspect of this change will be discussed in the next chapter, in connection with the question of wages. But all disputes are not wage disputes; and, in particular, any marked success of a Labour Government in restoring industrial prosperity and so reviving the demand for labour would almost certainly be followed by a revival of strike activity. Grievances have accumulated in the workshops during the bad years of depression; for the workers have not been strong enough to strike on such issues, and employers, well aware of this, have taken widespread advantage of the situation. It is very necessary to deal with this problem in advance; for a great crop of strikes might easily wreck, or at least imperil, the success of the Labour Government's measures for industrial recovery.

The Labour Government, therefore, should at the very outset make the fullest possible provision for the expressing and remedying of workshop grievances by means less wasteful than the strike. The proposals for a Works Council Act form one part of this provision, and the suggested Industrial Courts, rightly officered, can provide another. But it will be necessary in addition to announce at the outset, and bring as rapidly as possible into being, an advanced programme of industrial legislation. The passing, in a strengthened form, of the long-deferred Factory Act is one obvious step; and another, of vital importance not only for British workers, but also because of its influence throughout the world, is the speedy ratification and enforcement of the Washington Eight Hours Convention and of all other

Conventions adopted by the International Labour Organisation. The prosperity of British industry is, indeed, so closely bound up with the parallel advance of working conditions in all developed industrial countries that the strengthening of the International Labour Organisation is an integral part of any practical policy of industrial progress in Great Britain.

The legislative shortening of the working day will not, it is true, result in any great change in the conditions obtaining in most of our principal industries. Despite the prolonged depression, the major industries have successfully maintained the shorter hours gained during and after the War. But this does not mean that it is unimportant. In our lesser industries and services there are many thousands of men and women who are working inhumanly long hours under unbelievably bad conditions. To lift up these bottom dogs of industrialism to the level of the better-organised trades is an essential part of the immediate task of society; and the establishment of a reasonable maximum working day is an indispensable step towards this result. Moreover, the effect of our ratification of the Washington Convention on the attitude of other countries towards it is vital, not only because it will help British industry in world competition, but far more because it will bring succour to millions of workers who are even worse off than many of the bottom dogs of Great Britain.

The Labour Government will need, then, an advanced policy of industrial legislation. The first steps towards this are clear enough: later steps will best be worked out in conjunction with the Trade Unions. The Labour Government will be wise, as soon as possible, to call into being a representative body based on the Trade Unions and in close touch with the new Works Councils, and to entrust to it, in negotiation with a special Cabinet Committee on industrial legislation, the working out of a comprehensive programme, to be carried into execution by stages, as political and economic opportunities permit. This Industrial Conference, again, will not be a joint conference of employers and employed, but purely a workers' body. The proposed Cabinet Committee will of course need to meet the employers, and discuss with them also the questions raised; and it may well be desirable, at certain stages, to bring workers' and employers' representatives together to thrash out particular points. But the

Labour Government's business is to find out what the workers want, and not to limit itself to points upon which workers and employers are able to reach agreement.

It will perhaps be urged that there is no need to create any new machinery for this purpose, because the General Council of the Trades Union Congress is already available for consultation, as it has been consulted, in the late discussions, by Lord Melchett and his colleagues. But the General Council has its own work to do in co-ordinating the Trade Union movement as an industrial force, and is not well suited to the functions here in question. It consists, naturally and inevitably for its present work, purely of national Trade Union delegates, and does not sufficiently reflect the workshop standpoint. It will have, of course, to be consulted, and its advice will carry great weight; but for the foundation of a new code of industrial law a specially constituted body, including representatives of each important trade and reflecting more accurately the varied experience of workshop life, is plainly needed. It would, moreover, be a mistake to tie up the General Council of the Trades Union Congress to the Government in ways that might hamper its freedom of action as an independent critical force. Its business is to keep wholly outside the sphere of administration, and to uphold the independence of Trade Unionism even under a Labour Government. We do not want the Trade Unions officialised in any way. Even in relation to socialised industries, it is essential for them to preserve their independent rôle.

One last point. Guild Socialism, during its period of influence as a distinct movement, gave rise not only to a new view of Socialism, but also to certain practical experiments in the co-operative organisation of producers for the conduct of industry. The National Building Guild failed, and its failure was partly due to internal mismanagement, though the underlying cause was a change in Government policy due to the slump. The Building Guild, even with perfect management, would probably have been killed by the winding up of the Addison housing scheme, which alone enabled it to carry through large-scale operations without capital of its own, on a basis of State credits. Even if the winding up of this scheme in the great slump had not killed it, it would certainly have been reduced to very small proportions. Certain local Guilds, in the building and other indus-

tries, are indeed still carrying on with success in a small way. It would be absurd to expect these small experiments in practical workers' control of industrial management to exert any material influence on the general transformation of the industrial system. But, if they meet a need, and can be conducted with efficiency in industries which need only a small amount of capital for successful working, they are well worth encouraging; and the Labour Government should accordingly, in such services as housing, be prepared to encourage, not only the direct labour schemes of local authorities and public utility societies, but also experiments on Guild lines. This, of course, involves the placing of credits at their disposal, under reasonable safeguards; and the provision of funds for this purpose should be part of a Labour Government's policy. If the workers do not want Guilds, they will not arise; if they are wanted, they should be given every chance of proving their worth.

The provision of State credits on these lines would not need to be confined to Guild enterprises. They should be available, on more liberal terms than at present, for agricultural co-operative societies, and there seems every reason for agreeing to extend them to the great consumers' Co-operative Movement, if its leaders wish to take advantage of them. For it is clear that consumers' co-operation plays a great part in the supplying of certain elementary needs of ordinary people to-day, and will be called upon to play a far larger part as society passes over to a Socialist system. If Co-operators prefer that their movement should grow gradually, at a pace limited by its capacity to build up its capital out of its own members' savings, that is its affair. If it wants State credits, they should be readily given to it.

For, side by side with the great administrations proposed for the basic industries which can be made efficient only by co-ordinated organisation under strong central control, there is reason for a great diversity of experiment in all the industries which do not call for this form of socialisation over the whole field of their work. There is ample scope for Guilds, for co-operative bodies of many different types, for a great extension of municipal enterprise, even for the continuance of forms of 'private undertaking' shorn by public regulation of their injurious social and economic effects. The aim of Socialists is not to introduce uniformity, but to regulate the diversity of economic enterprises on new principles

designed to meet the social needs of the twentieth century. Who knows whether, in some of the 'minor' experiments of to-day and to-morrow, there may not be hidden the possibility of new forms of business organisation that will one day extend their influence over a far wider field? Uniformity kills. Socialism seeks, not to limit the opportunities for initiative, but immensely to extend them by removing the hindrances now placed in their way by the gross inequalities of wealth, and by the dead hand of a capitalism which treats initiative as the monopoly of a single class.



## CHAPTER IX

### WAGES—FAMILY ALLOWANCES—POPULATION

The working-class standard of life—Vital necessity of improving it—Why it is difficult to bring about a considerable rise in wages—The relation between wages and employment—The 'economy of high wages' and its limits—The redistribution of incomes by taxation the best immediate way of raising the standard of life—High taxation need not hamper industry—How far incomes are redistributed to-day—The case for Family Allowances—Why these must be financed by taxation, and not by means of insurance or an 'industrial pool'—How large a scheme can the State afford?—The policy of a 'living wage' for all considered—Developments of the Trade Board system proposed—Wanted: a Central Trade Board—The attitude of a Labour Government towards Trade Union attempts to raise wages—The population problem—Effects of Family Allowances on birth-rates, death-rates, and migration—Birth-control—Quality more important than quantity in considering the population problem—Food supply in relation to population—The 'optimum' theory criticised—Effects of Family Allowances on Trade Union bargaining power—Redistribution of incomes as a stimulus to economic progress—Rival principles of payment, based on need and service—How they can be practically reconciled—Dividends for all?—Shall we reach full equality of incomes?

"THE Charter", said Joseph Raynor Stephens nearly a century ago, "is a knife-and-fork question." And, though economic conditions have on the whole greatly improved since Chartist days, the knife-and-fork question remains as pre-eminent as ever. Socialism will not be worth a brass button to the ordinary man unless it can improve the standard of life. For, while an improvement in the material means of life is not a guarantee of an improved quality of living, it is certain that the mass of men stand a very poor chance of improving the quality of their living without it.<sup>1</sup>

The standard, it may be said, has risen, and both the material

<sup>1</sup> For certain statistics of wage movements illustrating the argument of this chapter, see Appendix III., at p. 449.

means and the quality of life have been greatly improved. It is almost certainly true that in the society of to-day taken as a whole there is a great deal more well-being than there was a century ago. We have few abuses to-day that compare in the intensity of the physical misery they cause with the commonplaces of the life of poor men and women in the formative period of the Industrial Revolution. The material conquests of the past century have been great, and must not be undervalued. Nor does the comparison hold only with the bad days of the early nineteenth century. As compared with the common folk of two hundred, three hundred, four hundred years ago, the poorer sections of the modern community are, in the mass, not only far better off in a purely physical sense, but in all probability a great deal happier as well. The glamour of the Middle Ages is often allowed to conceal the squalor of the common life which lay at their economic foundations. The Gildsmen—a privileged minority—blot out the peasants: we are dazzled by the pageantry of the Age of Chivalry, but we omit to smell it. Similarly, in later centuries, the life of the common people is obscured by the great doings of their betters. Queen Elizabeth and Cromwell hide the sturdy vagrants and the petty tyrants and victims of the Age of Squirearchy. We see the past through the eyes of its successes and not of its suffering and inarticulate failures.

The real improvement in the standards of living, however, has not in any way solved the economic problem. It has only whetted desire. For the will to enjoy the good things of life grows with what it feeds on; and, even if there are limits to the growth in a material sense, the means of the great majority are still far too straitened and uncertain for these limits to be even in sight.

Even if all industries were prosperous, and real earnings as high everywhere as in the year or two of delusively 'good times' that followed the war, the mass of a Labour Government's supporters would look to it to make them better. For the relatively good times of 1919 and 1920 by no means satisfied the workers' ambitions for a higher standard of life. Even the earnings of those years, judged by any reasonable standard of living, were far too low. They fell far short not only of the human demands of labour, but also of the capacity of the productive powers of society to satisfy human needs. Even more to-day,

when this standard of living has been rudely snatched away from the workers engaged in many of our leading industries, and miners, shipbuilders, cotton operatives, and metal workers are having a desperate struggle to make both ends meet, will a Labour Government be judged by its success in effecting some real improvement in wages.

The doing of this, however, will certainly not be easy. For, in the industries where wages have been heavily reduced, there exists at present no great surplus of profits that can be drawn upon for raising them. There are, indeed, in the depressed trades numbers of individual establishments that are doing well, and yielding their owners a large 'rent' of efficiency or opportunity. There are mines and cotton factories which have continued to make large profits right through the slump, either because they are specialists in some product little affected by it, or because they can deliver goods without difficulty at prices which yield their less fortunate or efficient competitors no surplus, or even drive them out of the market altogether. The aim of the miners, in the scheme for a 'National Pool' which they put forward in 1921, was to tap these surpluses for making up the deficiencies of collieries less fortunately placed. They proposed, in effect, that the better mines should subsidise the worse ones.

While this method might conceivably have been the right one for meeting a purely temporary emergency, it clearly offers no lasting solution of the problem. For, if a mine or factory is not paying or likely to pay, it is evidently uneconomic to keep it at work, unless there are very cogent social reasons for its preservation. There may be a case for keeping such an establishment at work temporarily while arrangements are being made to shift its workers to other employment. There may be a case for maintaining it permanently, if its existence serves some indispensable social purpose. There may be a case for reconditioning it, so as to bring it up to a satisfactory level of productive efficiency. But, except in as far as one or other of these reasons holds good, the economic case for its discontinuance is overwhelming. Old mines and obsolete factories are, indeed, constantly going out of production, when the economic system is working normally. The trouble at the moment is that the depression in our leading industries is forcing an abnormally large number of the less fortunate or well-equipped plants

below the 'margin', and that a rise in wages, unaccompanied by other measures to improve efficiency in working, threatens to force a good many more down to a point at which they will be unable to continue production.

A Labour Government cannot, in these circumstances, merely pass a law, or series of laws, for the raising of wages, and then hope for the best. For it cannot afford so to raise the wages of those who remain in work as to add substantially to the numbers already unemployed. And, while the doctrine of the 'economy of high wages' is, on the whole and in the long run, sound common sense, it does not follow that it will work out smoothly in the short run or in each individual case. It is very far, unfortunately, from being true that every manufacturer would find himself with lower costs of production if only he would raise the wages of his employees, or that, in the short run, the increased purchasing power generated by higher wages would, by itself, avail to restore economic prosperity to the industries which are now depressed.

This difficulty, of course, arises largely from Great Britain's dependence on overseas markets. If our costs of production rise, either we raise our prices, at the cost of selling less of our products abroad and of meeting increased competition from foreign imports at home, or, leaving our prices as they were, we allow certain firms now at work to go out of production and throw their employees on the labour market, with the result that there are fewer workers receiving wages, less purchasing power, and accordingly less demand for the products of industry. In this case, the sums added to the cost of production are likely to go, by way of taxation, in maintaining the increased body of unemployed: so that, on the whole, the community is substantially worse off than before. The only compensating advantage is that, as the 'marginal' firms are driven out of production, the firms higher up the scale of efficiency may be able to increase their output, and, by taking advantage of the 'principle of decreasing cost', to produce more cheaply, despite the higher wage-rates, because they are able to produce on a larger scale. In this case, the 'economy of high wages' comes into effect, but rather as a consequence of the extended scale of production than of the higher wages themselves.

If we could rely on this happening, and on the firms higher

up the scale of efficiency re-employing the workers displaced by the cessation of the marginal firms, and thus replacing their purchasing power in the market as a means of buying the additional products of the better firms, it would be plainly the right policy for a Labour Government to raise wages by law in all the worse-paid industries, and then wait for this result to follow. But there are several reasons why it would not follow automatically. One is that, when the costs of production rise, the 'marginal' firms do not by any means always obey the 'laws of economics' by falling out of the market. As we have seen in the case of the cotton trade, they may be forced by financial considerations to continue, even over a protracted period, producing at a loss, in the interests of creditors and debenture-holders whose claims would be jeopardised by their closing down. At first sight, it may seem that this results in keeping at work men who would otherwise be displaced. What it achieves in fact is under-employment and short time for a large body of workers, and an unnecessarily high cost of production for the industry as a whole. For the better firms, faced with the cut-throat competition of 'marginal' firms which must go on producing even at a loss, cannot take advantage of the economy of large-scale production, and the 'economy of high wages' therefore cannot be realised.

Even if this difficulty is surmounted, and the marginal firms do cease production, it does not follow that the replacement of their output by firms higher up the scale will result in the re-employment of the workers displaced by their failure. Indeed, it almost follows that it will not, in any complete sense. This is both because the more up-to-date firms will probably take on, to some extent, labour of different types—replacing especially the labour of older by younger workers and, in some degree, adults by juveniles—but also because the greater efficiency of these firms will result in a net economy in the quantity of labour employed. Ultimately, the displaced surplus may be reabsorbed, as the economy of high wages and mass production is achieved, by the growth of the market. But, meanwhile, a repetition of the same process in other trades will have created fresh reservoirs of unemployed labour elsewhere. Over a long period, the total displacement may exceed the total re-employment of labour; and the transition will press throughout with exceptional severity

upon the older workers and upon those skilled tradesmen whose crafts are being superseded by the rationalisation of industry.

We have, then, to face the fact that a Labour Government cannot bring about a general increase of wages merely by passing an Act of Parliament to raise them, without involving itself in other difficulties which will cause the defeat of its policy of industrial reorganisation and development. There are only two sources from which higher incomes can come for the poorer sections of the community—from an increase in the divisible product of the industries in which they are employed, or from a redistribution of incomes, applied not to industry alone, but to the social income of the community as a whole. Clearly, if industry can be made more prosperous, it can afford to pay higher real wages. But it cannot do this, on any general scale, unless it becomes more prosperous, or without substantial reorganisation. It is not practicable, under existing conditions, to raise wages by any direct diversion of the employers' profits into the wage-earners' pockets. For the industries in which there is the greatest need to raise wages have, on the whole, just now the lowest profits, and any large inroad upon these would simply result in a widespread closing down of establishments no longer remunerative to their owners.

It follows that if, before there has been time for the policy of industrial reorganisation, with a view to more efficient production, to take effect, the incomes of the wage-earners must be raised, this must be accomplished rather by social measures than by the direct raising of wage-rates, either by law or by Trade Union action. This method both avoids the difficulty that wages are lowest where profit-earning capacity is least, and enables a far larger total of surplus income to be tapped for the purpose of redistribution. For it is common knowledge that a very large proportion of the great incomes in the community to-day come, not directly from productive industry, but from commerce, distribution, and finance, and a large further part from the exploitation, not of British labour, but of the rest of the world. A policy directed purely to the raising of wages will be unable to attack any part of the economic surplus that does not arise directly in the industrial sphere; whereas if incomes, rather than wages, are made the first point of attack, the process of redistribution can be spread over the whole of the surplus. A Labour Government

must be alert to further the raising of wages whenever and wherever a favourable opportunity occurs; and some suggestions for doing this are made later in the present chapter. But, in the early stages, its way of attacking the problem of poverty should be rather through a social redistribution of incomes than through the compulsory raising of wage-rates by law.

This policy has the overwhelming advantage that it adds nothing to the costs of industrial production. For it is sound economic doctrine, reaffirmed by the recent Colwyn Committee on National Debt and Taxation, that profits do not enter into costs. Profits are in the nature of a rent, or surplus, remaining after the costs of production have been met. Where goods are sold in the market at a uniform price the firms that have the higher costs make the less profits, and therefore taxation of profits falls less upon them than upon their more fortunate or efficient rivals. Taxation so high as to sweep away all profits might indeed stop capitalists from producing at all; but this would not be because the taxation had added to the costs of production, any more than a tax on land rent would add to the costs of the farmer. The landlord, taxed 100 per cent on his rent, might refuse to let his land altogether; but taxation would not enable him to let it at a higher rent, and so pass the tax on into the cost of production. Similarly, the capitalist, faced with taxation of his profits at a deterrent rate, might refuse to invest in industry as long as he could find some other outlet for his money. But high taxation would not deter him from making the most profitable use open to him of his capital already invested, or add in any way to his costs. Taxation of profits falls on incomes already realised as a result of production, and not upon the productive process itself.

The possible effects of high taxation upon saving and investment are, indeed, a most important matter, and one to which we shall have to devote attention later. But here the point is that, whereas a rise in wages, unless and until it could be met by more efficient methods of production, would fall directly upon costs, the redistribution of incomes through taxation of profit incomes has, directly at least, no effect upon costs and is therefore on the face of it a sounder economic policy in the present situation.

What, then, are the means of this redistribution to be, and

how far can a Labour Government hope to carry the process within a few years? It is, of course, common knowledge that the tendency here made the basis of a deliberate policy has been already in operation for some time. In so far as the economic position of the wage-earners has improved during the present century, the growth of social services has probably had a good deal more than any rise in wages to do with the improvement. Taxation has been increasingly used as a means of redistributing the social income, and the conception of a sound tax system has been radically modified in correspondence with the practical change. The growth of the public services of education, health, and old age pensions—the State subsidies to housing and other services—the Exchequer contributions to the contributory schemes of social insurance—have all involved the deliberate use of taxation as an instrument for the redistribution of incomes. It is not suggested that the whole of the sums so distributed have been for the workers a net gain; for they have been compelled to pay a substantial part of the cost themselves through taxation—especially indirect taxation; and some services have been so financed as probably to react on wage-rates. But the fact remains that we have learnt the power to use taxation not merely for the raising of the necessary minimum of public revenue, but also for the redistribution of incomes.

The next step in the process of redistribution is clearly to apply it to the meeting not only of the casualties of life—sickness, old age, and unemployment—or to special needs felt as vital by the community as a whole and therefore singled out for exceptional treatment—such as education or child welfare, in the narrow sense—but to the normal life of the family group. The system of family allowances, rightly applied, gives the Labour Government its answer to the immediate problem of raising the standard of life for the poorer sections of the community. But it is of vital importance that family allowances should be conceived aright, and that any scheme for their adoption should follow sound economic lines. We shall get them hopelessly wrong if we think of them as additions to wages, or as having anything to do with wages as such. They are a means, not of raising wages, but of giving the poorer members of the community more reasonable incomes without touching wage-rates or affecting the costs of industrial production. They are not and



cannot be wages, because wages are essentially a form of payment for service rendered, varying with the economic price of the service; whereas family allowances are based on need, and have nothing to do with any economic service at all.

Certain conclusions follow logically. Any plan for paying family allowances on an industrial basis, under separate schemes for the redistribution of the takings of particular industries, is ruled out of court at once. So is any plan for a general industrial 'pool'; for this would place the burden exclusively on industrial earnings, and not on the entire social income of the community. Any plan for a merely 'lateral' redistribution, by taking away some of the wages of single men and giving them to married men with dependents, is also plainly illogical; for, under a wages system, why should the single man get less than the economic price of his service, or the married man more? It is clear that any rational scheme of family allowances must be financed out of general taxation, and kept wholly distinct from the payment of wages for work done.

There is a further reason for financing any plan of this sort wholly out of the proceeds of general taxation. No other way of finding the money can avoid reacting on the costs of production in industry. Even a Labour Chancellor of the Exchequer will doubtless be sorely tempted, in order to lighten his Budget, to adopt a contributory scheme, and, while providing part of the money out of the national revenue, to put a large part of the cost upon the employers and the employed. This temptation must be sternly resisted. Any contribution exacted from the employer evidently goes straight on to the costs of production; and contributions from employees are manifestly not going to help towards raising the working-class standard of life. If the employer is compelled to pay in this manner, he will only agitate to get back what he pays in some other form, as the new remission of rates to industrial concerns may be held to have wiped out the employers' contribution to all the social services now in operation. And if, in the long run, the money must come out of general taxation, is it not far better to place the burden there at once?

A Labour Government should, then, during the life of the first Parliament over which it presides, carry through a general plan of family allowances financed wholly out of public funds,

and paid directly to the recipients as a form of income entirely unconnected with wages.<sup>1</sup> These allowances, payable to the families of employed and unemployed workers alike, would, of course, wipe out the payments to dependents now made under the Unemployment Insurance Acts, and the subsidiary payments, suggested in an earlier chapter, to members of the proposed National Labour Corps. The latter have been put forward only because the formation of the National Labour Corps is regarded as a step that must be taken immediately the Labour Government comes to office, whereas it may take several years to bring the general plan of family allowances into effect.

It will not be possible, for reasons of financial stringency, to begin with as generous a scheme of allowances as the Labour Government would desire. The redistribution in this form of, say, one hundred million pounds of the national income is probably all that can be attempted at the present stage. But even this would allow a really material addition to be made to the incomes, not only of the rural workers, who would benefit most clearly of all by the scheme, but of all workers in the depressed trades, and of the whole body of less skilled operatives in the minor industries of the country. Even the better-paid workers would be very sensible of a benefit which would enable them, without undue strain on their resources, to make that better provision for the higher education of their children which they are coming more and more to desire.

If the problem of working-class incomes is to be tackled, in the immediate future, primarily in this way, what of wages in a narrower sense? There has been of late, in certain Socialist circles, a strong insistence on the need for a Labour Government to embark upon the policy of progressively enforcing, in all occupations, a 'living wage', reckoned in terms of the human needs of the worker. The adoption of family allowances will, of course, greatly simplify the problem, by taking the expense of providing for the bare needs of dependents, even in the early stages, largely off the wage-earnings of the worker. But the

<sup>1</sup> I am not here raising the question whether the allowances should be paid wholly in money, or partly in money and partly in kind. There is much to be said for making certain allowances (*e.g.* free milk) in kind, and others in the form of coupons that can be spent only in certain ways. But I am concerned in this book with the cost and not with the precise method of paying the allowance.

problem will remain of securing that wages rise as fast as industries are able to expand their 'ability to pay'. The economy of labour efficiency must not be made the means to unnecessarily high profits; it must be converted step by step into the economy of high wages.

It would, however, be unwise, for the present at least, to lay down any standard 'living wage', above a low minimum level to be discussed hereafter, and insist on all industries conforming to it. In particular, any proposal that all industries unable to pay the 'living wage' should pass under State control is open to grave objection at the present stage.<sup>1</sup> The next Labour Government will have to conserve its energies and resources for the difficult task of reorganising the vital industries and services on whose health national prosperity mainly depends. It cannot afford to clutter itself up with the taking over of less vital industries or services solely on the ground that the wages they pay are too low. It cannot and should not, as we have seen, embark on a policy of subsidies to industry; but, unless it is to do this, what is it to do with the unprofitable trades of which it acquires control? It will be, of course, in some degree helping to their feet and reorganising under the Board of National Investment numerous particular firms in these as in other industries, and in these cases it will be able to attach to its help conditions as to the wages that must be paid. But beyond this, at the present stage, it should not attempt to go, save by making fuller use of existing methods. The Labour Government cannot do everything at once; it must concentrate in its early days upon the key tasks of economic reconstruction.

This does not mean that it can do nothing. It will possess, in the Trade Boards Act, an instrument that can be used to great effect by forceful and sympathetic administration. Ever since 1921, the main preoccupation of Governments has been to prevent the Trade Boards from raising wages. The Labour Government will aim at inducing them to raise wages as much as possible, and will be able to create new Boards for underpaid trades at present unregulated. Moreover, the machinery of the Trade Boards Act can be greatly improved by certain simple amendments. There is need, in addition to the separate Boards

<sup>1</sup> This is not intended as a criticism of the I.L.P.'s 'Living Wage' policy, but only of certain variants of it based on a misunderstanding.

for particular trades, for a Central Trades Board or Commission, entrusted with two vital functions. This body should have power, in the first place, to lay down certain basic minima, for adult men, for women, and for boys and girls; and every rate fixed by any Special Board should be disallowed unless it comes up at least to these overriding minima. This step could be taken without danger of causing any serious dislocation; for it is not proposed that the overriding rates should be fixed at a higher level than those recognised by the majority of the existing Boards. They would be moved gradually upwards thereafter as unemployment vanished and the ability of industry to pay increased.

The second function proposed for the Central Board or Commission is the fixing of minimum rates for occupations too scattered to be brought under a Special Trade Board. The Central Board should be empowered either to set up for such cases a simpler form of wage-fixing body, whose proposals would need its endorsement, or itself to fix minimum rates directly at any level higher than its own overriding minima. With the addition of this new machinery, the Trade Boards Act of 1918, together with the Agricultural Wages Act, passed by the Labour Government of 1924,<sup>1</sup> should prove adequate for all that a Labour Government can reasonably be expected to attempt, during its first tenure of office, in the direct raising of wage-rates in the sweated trades. In addition, it will, of course, in industry generally, give its help to all reasonable Trade Union attempts to secure by industrial bargaining that the benefits of 'rationalisation' and trade revival shall be reflected in higher wage-rates as fast as they can be realised in practice. The power of a Government to influence the course of industrial bargaining is considerable; and, as we have seen, the Labour Government will need to make skilful use of this power.

Doubtless, the proposals so far outlined in this chapter will provoke, in certain quarters, misgivings on the score of their possible effects on population. Family allowances, in particular, have been criticised strongly on the ground that they will raise the birth-rate, whereas what is needed, it is said, is a substantial fall in population in order to drain off the surplus of unemployed workers whom our existing system has created and, with the

<sup>1</sup> On agricultural wages, see further, p. 197.

growth of rationalisation, will continue to create in growing numbers. There are here two assumptions: that family allowances will increase population, and that population ought to be diminished. Let us look at them in turn.

The size of the population depends on three factors—the birth-rate, the death-rate (in which the rate of infant mortality plays an important part), and migration. Family allowances might conceivably affect all three. They might raise the birth-rate, by making the economic prospects of childhood more secure; lower the death-rate, both by checking infant mortality and by promoting health and so increasing the expectation of life; and, while encouraging immigration in order to secure them, discourage emigration for fear of their loss. The immigration point is not serious, and could be readily dealt with if it arose. The point about emigration involves the impossible view that we ought deliberately to refrain from improving conditions here in order to drive workers out of the country—an opinion that no one will dare to maintain openly. The fear of a falling death-rate carries with it the same assumption. We cannot wish to save ourselves from over-population—even if that danger really exists—by killing off babies through malnutrition and disease. Nor can we wish to make our population unhealthy in the hope that it will die the sooner—if only because a population of unhealthy workers will clearly be far less productive than one of good health and physique. If we want to kill off the old, let us kill them openly, and not by following Clough's commandment that

Thou shalt not kill, but needst not strive,  
Officiously, to keep alive.

Of course, it does not follow from what has been said that arguments about the effect of family allowances on the death-rate are unimportant. They are very important, and, if we go in fear of over-population, they must cause us to scrutinise very closely the possible effects of the policy on the birth-rate. But, in themselves, they are not arguments against the family allowance system, but strongly in its favour. Even those who hold that our population is too large will agree that it is indispensable to do all we can to improve the quality of living for all who are born. We cannot want not to lower the death-rate.

The vital question, then, is that of the birth-rate. This is now

falling. Will family allowances cause it to take an upward leap by making men and women get children incautiously, knowing that the State will provide for their primary needs? There are three ways in which this might happen. More children might be born out of wedlock; married couples might deliberately have more children; and, without such deliberation, more children might be born because family allowances had the effect of encouraging earlier marriages and thereby stimulating fertility.

As far as children born out of wedlock are concerned, can anyone doubt that the spreading knowledge of birth-control (quite irrespective of his views of its morality) will decrease their number far faster than family allowances can possibly be expected to increase them? The practice of birth-control is becoming so rapidly more intelligent, and the knowledge of it extending so fast, that the unwanted children born out of wedlock are likely to be a rapidly diminishing number—how rapidly, will depend mainly on the progress of education in the worse-paid sections of the people.

Far more important is the question whether the system of allowances is likely to increase the number of children born with the full intention of their parents. Its probable effect in this sphere has, to say the least, been often greatly exaggerated. The allowances paid will cover only the bare primary needs of the child, except in the poorest strata of the population. The ordinary worker, accordingly, will make not a profit, but a 'loss', in the purely financial sense, by increasing the size of his family; and—as the allowances will take no account of social differences in the standard of life—the higher his standard is, the greater this 'loss' will be. So far from having more children as a consequence of the allowance system, the better-paid workers are likely to set out to have less; for the allowances, by making it possible for them to give one or two children a better start in life, will be likely to make them far more eager to improve still further the prospects of these one or two than to add to their number. The effect will be to raise the standard of working-class parenthood, and so to discourage rather than encourage large families.

In the case of the workers who are on the lowest standards of life to-day, this result will be far less certain; for they may stand to make a gain rather than a loss, in the financial sense. But these classes hardly control at present the fertility of their

unions; and, this being so, family allowances are not likely to have much effect on them, except in the diminution of infant mortality. In the long run, they will almost certainly make for a lessened number of children; for, by enabling the standard of life to be raised, they will tend to lift the lower grades of the people up towards those now higher in the social scale, and thus to call into play the same motives as may be expected at once to influence the better-paid workers.

There remains the question of the greater fertility of early marriages; and this, if it exists, is the one way in which family allowances seem at all likely to increase the birth-rate, by making it easier for young people to marry. But, even if this happens, the motives which induce married people, for their own welfare and their children's, to limit the size of their families, seem certain to do more than counteract its effects.

In brief, while it is perfectly true that the adoption of family allowances will tend to lower death-rates, there is no case made out for the view that it will cause the birth-rate to rise. And, when we consider the other social forces at work, it seems on all accounts far more likely that the birth-rate will fall with increasing rapidity. Birth-control has not merely come to stay; it is quite certain to spread down the social scale very fast. The new position of women alone would ensure this result; and the rapidly growing determination of the younger generation to insist on being comfortable and not incur unnecessary pain or trouble will co-operate to enforce it. Birth-control is coming fast, whether we like it or not; and I, for my part, regard its coming as a thoroughly good thing.

This is not mainly because the population of Great Britain is at present too large, or because we have large masses of unemployed. There may be reasons for wishing population to decrease; but, quite apart from them, there are other excellent reasons for desiring the spread of birth-control. The quality of population is far more important than its quantity; and no reasonable person can doubt that, in the straitened circumstances of the ordinary man, the members of a small family have a far better chance of happiness, and of turning out good, efficient citizens of the community, than the members of a big family which the parents have neither the means nor the time to bring up properly. There are, of course, well-known disadvantages for

the single child; and it is for the family of two or three, and not for the family of one, that I am arguing. But that the decrease of large families is calculated, on the whole, to improve the quality of life there is surely not the smallest doubt.

If, then, even apart from any question of the total size of the population, birth-control is clearly desirable in order to improve the quality of the ordinary man, what ought the next Labour Government to do about it? The answer will disappoint, and perhaps anger, many birth-controllers; for the answer is—officially, nothing. The entire question raises prejudices and scruples so violent that any attempt by a Labour Government to tackle it directly early in its career would not merely raise a storm, but threaten disruption, and alienate so much support as to jeopardise the party's majority. Not all things that are right are expedient for party action; and the Labour Government, if it can, will be wise to leave the whole question severely alone. Birth-control will spread fast without any action of the Government to spread it. The proper business of its advocates is to get on with their propaganda, to found clinics and educational agencies for birth-control as fast as they can, and see that they are conducted efficiently, with the minimum of mistakes; and to influence public opinion up to the point at which the question will become ripe for political handling. They can afford to do this, and to refrain from chivvying a Labour Government about it yet, as only an irresistibly advancing cause can afford to do.

The emphasis here laid on the quality of population is not meant to obscure the fact that there is a quantitative problem as well. Obviously, the fact that our present population is too large to be fed with the produce of our own land is a very pertinent fact. Obviously, the tendency of rationalisation to lead, for the present, to a net displacement of labour must not be left out of account. Obviously, it would make things a great deal easier for us during the next few years if a few millions of our present population simply vanished into thin air—especially if we could pick the persons who were to vanish. But these evident facts do not prove that a contraction in the numbers of the people would solve our economic problem, or even that, in any real sense, Great Britain is over-populated to-day. Take, for example, the question of the food supply. If our population fell to the point at which it could be supported by our present



production of foodstuffs, would that help British agriculture? Far from it. The reduction of our demand for foodstuffs would bring down their price, and drive cultivation from the worse lands now cultivated to the better. Some overseas farmers, but also some British farmers, would be driven below the margin of cultivation, and would cease to produce. There is absolutely no evidence that we should, under the changed conditions of demand, produce even a larger *proportion* of our food supply at home; and certainly we should produce a far smaller *amount*. It may be answered that we could then protect the home grower by prohibiting the importation of foreign foodstuffs, or creating a high tariff wall. But such measures would be open to precisely the same objections as rule them out of court to-day. They would clearly raise the cost of living, by keeping foodstuffs at an unnecessarily high price in order to protect the home grower. British political opinion would be no more likely to tolerate this, if our total population were reduced, than it is to-day.

What the advocates of a small population are liable to forget is that, if men have mouths, they have hands as well, and that, on the whole, the increase in the national wealth is evidence that they produce more than their keep. A reduction in the number of the people will destroy power to create wealth as well as necessity to consume it. Moreover, modern methods of production thrive best on a large market. The more they can produce, in most manufacturing industries, the more cheaply they can produce it. There is no evidence that a reduced population would be able to command a higher standard of life than our present population could command, if only it were properly organised for the task. A reduction in the size of the population might, if it were possible, be a very convenient means of meeting a temporary emergency of economic maladjustment. It does not at all follow that it is, in the long run, a good to be sought as the means to a greater wealth per head. And, in any practical discussion of the population problem, it is only the long run that counts; for the child that is born—or not born—to-day will not affect the labour market till fourteen or fifteen years ahead.

It is true that, to a great extent, the size of the market for goods depends, not on the number of buyers, but on their purchasing power. Even if there are few people, they will have no dearth of needs. But beyond the elementary requirements of

life, their needs (despite the growth of standardised consumption in America) will tend, we may expect, to become more diversified as their standards rise. They will all want more things, but not more of the same things. This does not matter, if the scale of production for ordinary needs can be made large enough for full advantage to be taken of the economics of modern production; but it would matter if the size of the community fell below the point needed for this. A diminution of population below that point would involve and connote a fall in the standard of living.

This is the main contention of those who now preach what is called the 'optimum' theory of population. Neither a large nor a small population, they urge, is good in itself; there is, however, for any community at any time a right size, which will enable it to take full advantage of the opportunities for production without being so big as to force it to the use of less efficient means. Some forms of production have a tendency to increasing and some to decreasing cost as the quantity produced becomes greater. Economically, the population 'optimum' is at the point where the decreases in cost most exceed the increases. The 'optimum' is not indeed easy to find in practice, and still less easy to achieve. But it is there, the economists now tell us, whether we can find or achieve it or not.

This is all very well as far as it goes; but it tends to get the whole question in a wrong perspective by treating it purely as a quantitative problem, and ignoring the question of quality. There may be—indeed, there almost certainly is—an 'optimum', usually undiscoverable, at any particular moment, the existing quality of the population being taken for granted. But any change in the quality—physical or mental—will obviously alter the 'optimum' quantity, as will, no less markedly, any change in the existing methods of social and economic organisation. For purposes of practical politics, therefore, the 'optimum' theory is of no real use; and it is far more important to attend to the quality of population—and to get the economic forces organised for production in the best possible way—than to attempt to manipulate the quantity. To do the latter is difficult; but the greater difficulty is to know what result we want to achieve. Whereas clearly the more we can improve the quality of the people, both as human beings and as producers, the

greater will be the well-being of the community. The best practical political policy, therefore, is one which aims at the maximum of health and welfare, and especially at giving the children of the whole community the best possible chance of growing up with healthy bodies and well-equipped minds. This is the supreme justification of the family allowance policy; and in the light of this, the highly inconclusive criticisms based on its alleged tendency to increase the quantity of the population can safely be brushed aside.

The methods, then, of a Labour Government in improving the standard of life will be based less on the increase of wages—though this will play a growing part as industry becomes more prosperous—than on the use of taxation as a means of redistributing incomes, and on family allowances as the principal immediate means of effecting this result. This policy may be met, in Trade Union circles, with the fear that the granting of family allowances will be made the excuse for a wage-cutting campaign on the part of private employers. But why should this result follow? The redistribution of incomes through taxation will not add to the costs of industrial production, and will therefore give the employer no economic argument for a cut in wages. Or, to put the matter more practically, redistribution will not make it pay him less well to produce at the existing wage level, or cause him to discharge workers for this reason unless they will take lower wages. Apart from the question of the supply of capital, which is to be discussed in the next chapter, there is only one condition under which the adoption of the allowance system in the form here proposed can be regarded as likely to depress wages. That is, if the employer is at present paying labour more than its economic price, because wages have been forced down to a level beyond which no economic pressure can make them sink. If that were the case, the provision of a supplementary source of income for the workers might result in a fall of wages, by enabling the employer to exert the economic pressure which he cannot now use without driving them below 'subsistence level'—that is, below the point at which men will starve rather than work.

Is there any evidence that wages have reached this point, or that employers are at present paying labour more than its economic price? Perhaps yes, in a few isolated cases, but certainly not

as a general rule. Labour gets on the whole what it is 'worth', according to the commodity valuation of it on which the capitalist system is based. The adoption of family allowances will not, in the form proposed, help the employer to buy labour for less than the economic price. It will not, therefore, bring about a fall in the level of wages. Even the isolated instances in which it might have the opposite effect because of the absence of organisation—agriculture is perhaps the most important—could readily be met by State action. Agricultural wages are already controlled by Act of Parliament. The Act controlling them could readily be stiffened up so as to prevent advantage being taken of the labourers' economic weakness.

It is, indeed, vital that this should be achieved. The Labour Party's chance of winning the countryside over to its point of view depends, as far as the labourers are concerned, not on the devising of fancy 'land programmes', but on the achievement of a rise in their standard of living. This can be done but little by the direct raising of wages; but the adoption of family allowances would make a revolution in the means of living in our rural villages. The position of the farmer in relation to Labour policy is discussed in a later chapter. The labourers' allegiance will be won only by this means.

Indeed, the last paragraph but one substantially understates the case. Wages are most likely to be driven down when the workman, having no other economic resources, can resist by strike action only at the cost of exposing his wife and children, as well as himself, to serious privation. Family allowances, by making the fear of this less urgent, will increase his powers of resistance, and therefore, far from causing wages to fall, help to make them rise.

Immediately, the task of the next Labour Government is to improve the standard of living as far and as fast as economic resources allow. Any great improvement clearly depends on the increase of production—on the better use of the resources at our disposal. But it is of little use to begin tackling the problem from one end only. We cannot raise the standard of living far without more production; but equally we cannot produce more unless we can find means of distributing it. This, as we have seen, is the great dilemma of the capitalist system at the present day. Wise policy will seek to make the two reforms march together. It will

seek to make industry more productive; and at the same time it will seek to widen the range of demand by raising the incomes of the poorer sections of the people. That it can do this, immediately, for the most part only by redistributing incomes, and not by creating new ones out of nothing, limits its power; and we shall have, when we come to consider banking and financial policy, to discuss how rigid this limitation is. For the present, we must take it for granted, and point out only that the redistribution of incomes in the right way is calculated to increase the immediate demand for the products of industry, and thereby to help industrial revival. For although, by taxing the rich, it apparently takes away spending power which they would otherwise use in the market in their own way, it need not really have this effect. The stimulus to industrial production of consumable goods may create greater activity, and thus replace the sums levied in taxation and again increase the total of profits. Taxation of profits, if the money raised by it is transformed into spending power for ordinary folk, may thus, so far from checking production, tend to raise it, and so far from diminishing the real incomes of the rich, leave them with as much as before, though not with so high a proportion of the national income as a whole. In this, as in many other economic questions, we are apt to go wrong through a failure to keep steadily in our minds the idea that the national income is not a fixed amount, but a variable quantity generated in the process of production, and expansible in the degree in which production itself can be expanded. Given the right organisation for taking advantage of the opportunities presented, radical taxation can be made a positive instrument of economic progress.

All practicable progress in the redistribution of wealth in the next decade or so will, however, still leave the mass of the people mainly dependent for their living on wages or other forms of payment for services rendered. The principle of distribution according to need will, if family allowances are introduced, begin to elbow the rival principle of payment for economic value received; but it will not oust it yet from its supremacy. Nor is it possible to foretell accurately at present whether the new principle will destroy the old, or whether the two will patch up a working, even if illogical, accommodation. Logically, they have clearly nothing in common. Payment according to need, and pay-

ment according to the economic price of the service rendered, are two totally different and irreconcilable principles. Society, however, does not live by pushing ideological rivalries to their conclusions, and a working accommodation is quite within the bounds of possibility. It is clearly possible to take whole ranges of human expenditure out of the scope of the 'wage' principle, and bring them under the principle of need. We are doing this, more and more every decade, with education and the other so-called 'social services'. The institution of family allowances would mean doing it on a far larger scale, and taking the minimum needs of childhood wholly out of the sphere of the wage principle. But, even if this were done, the actual circumstances of children would still vary enormously with the economic position of their parents. The poorest would live on their allowances; but all above the poorest would share also in their parents' incomes. The principle of need would have been applied to the minimum, but to nothing above it.

It seems probable that, on a somewhat longer view, this principle will be pushed a good deal further. This may be done by the complete communisation of certain services, as we have already communised elementary education. We may come to a 'State Bonus', or to 'Dividends for All'—to use two names which have been adopted by advocates of giving every citizen, quite apart from his work, a certain minimum claim to a share in the annual social product. Wages and earnings may come to be only supplementary payments for work, and not the main source of men's livelihood. We may in the end decide to give up paying for work altogether, and settle down, as Mr. Bernard Shaw desires, to a complete equality, not of remuneration—for that will have disappeared—but of income, that is, to a completely equal distribution of the material means of life, as the best working compromise with the principle of distribution according to need. This last has a tremendous fascination for the social Utopian, because it seems to dispose, at one blow, of so many of the sources of our troubles—of the sordid struggle for gain, of the ungentlemanliness of being richer than one's neighbour, and of the equal ungentlemanliness of being poorer. It puts economists once and for all into a back seat in the affairs of life.

This complete equality, however, plainly postulates a very different set of economic conditions from those we know now. It

fascinates a narrow group of enthusiasts; but it is repudiated no more energetically by the successful business man than by the ordinary worker in industry. The latter will, as a rule, have none of it. It strikes him as mad and wrong that the man who is less skilled than he, or works less hard at the same job, should get the same money. He believes that the world's goods are badly distributed, and he is quite prepared to agree to a minimum distribution according to need as a basis for the protection of childhood and for other special purposes; but he still wants to reward each according to his works—according, that is, to his own revised estimate of what each man is worth. He will explain, as volubly as the business man, that he would never work hard without a financial incentive: in short, he believes in a wage-system shorn of class-exploitation, and not in a society based on communistic principles.

In this, as in other matters of ends rather than means, the ordinary man forms a court from which there is no appeal. If this is what he wants, he will have it, whatever Mr. Shaw and other intellectuals—myself among the number—may have said. We are, however, at liberty, if we cannot advocate equality of income as a practical political reform, to seize every chance of widening, with the ordinary man's consent, the area of distribution according to need or equality. We can preach family allowances or free secondary education, with good hope of carrying him with us. For, though these things can be regarded as steps towards complete economic equality, they can be regarded no less reasonably as steps towards an accommodation between the rival principles of remuneration for work and income as a social right based on need. The practical political maxim for the present is not full economic equality, but the recognition of an all-round minimum of human needs below which no human being must on any account be allowed to fall.

## CHAPTER X

### THE SUPPLY OF CAPITAL<sup>1</sup>

How will the measures so far proposed affect the supply of capital?—How far can the rich be taxed?—Functions of the private investor—The choices open to him—Large and small investors—The effects of redistribution of incomes on the investment market—And on State borrowing—Income and 'capital appreciation'—Can the latter be taxed?—Is the flow of capital rightly directed between industries?—Or between industrial and other claims?—Types of investment—Fixed and circulating capital—'Free' capital and 'sunk' capital—Do banks create credit?—How bank credit affects the flow of capital—The relation between credit and capital—The international flow of capital—Will high taxation restrict the supply of capital?—Why men save—The importance of business reserve funds—The 'national savings' analysed—How British industry is financed—Should business reserves be taxed more highly?—Need for increased reliance on reserved profits for the financing of industry—Policy of the National Investment Board as borrower and lender—Need for economy in the use of the available supply of capital—Development of State Savings Banks and of Municipal Banks—The case for the nationalisation of insurance—Increased wealth as the key to an abundant supply of capital—The future of taxation under Socialism.

It is perhaps time to pause and consider, in their cumulative aspects, the effects of the economic measures proposed in the foregoing chapters. The detailed discussion of their immediate cost must be reserved for a later chapter, when we have before us not only the financial demands of the policy of economic reorganisation already put forward, but also the cost of other social services, such as education, and when we are able to set against these any possible economies in the national Budget, and especially in military and naval expenditure and the service of the National Debt. Here we need only observe that two of the measures already suggested—the direct use of the unemployed

<sup>1</sup> For certain statistics illustrating this chapter, see Appendix IV., at p. 451.



to carry through a great programme of public work, and the scheme of family allowances proposed in the last chapter—involve large additions to the annual expenditure to be met out of national funds, while the plans put forward for guiding the course of industrial development involve the diversion of large masses of investible capital from their present uses to uses deemed more essential in the national interest.

We are, then, necessarily concerned very deeply with the effects of the policy so far outlined on the taxable capacity of the nation and on the sums available for investment. We must get the resources required for employing the unemployed mainly, and for providing family allowances wholly, from taxation of the social income; and we must get the capital required for national development from the investible surplus remaining after this taxation has been levied. Can these two things be done?

Taxable capacity plainly depends in part on the total magnitude of the national income, and in part on its distribution. If incomes were far more equally distributed than they are, and their total amount remained unaltered, taxable capacity would evidently be reduced; for there would be far smaller 'surpluses' available for sequestration in the public interest. But the need to tax would also be reduced, for there would not be the same need for using taxation as an instrument for the redistribution of incomes. Inequality in a high degree involves the need for high taxation in order to mitigate its effects; but it also provides the resources out of which high taxation can be met without hardship, if it is levied in the right way.

We cannot, however, take the entire surplus of the larger incomes over the owners' needs as the upper limit of taxable capacity. This is not because this surplus has largely to provide for the increase of the national capital; for, if this were all, the State could clearly appropriate it, and become itself the investor in place of the rich man. It is because the large incomes are, under the existing conditions, in part the response to the opportunity of securing them, and, if this opportunity were destroyed by taking them wholly away, a substantial part of them would not be realised at all. There is, indeed, much income that comes to its recipients without any effort on their part and almost independently of their will; but there are also many large incomes which are 'earned', in the sense that their owners could, and

would, abstain from getting them unless they expected to derive some benefit from their receipt.

The taxable capacity of the larger incomes has, therefore, certain obvious limits beyond which it cannot be pushed without seriously reducing their aggregate amount. This limit applies as long as the system of private enterprise is allowed to continue. A complete system of Socialism might greatly increase the aggregate wealth of the community by providing for the earning of the national income, and the accumulation and investment of the national capital, in other ways. But we are here discussing, not a completed system of Socialism, but the situation which the next Labour Government will have to meet.

In this situation, most industry will continue to be carried on with a view to private profit, and most new capital to be provided by investors eager to make as much profit as they can by its use. The State will, indeed, be itself borrowing money at a fixed rate of interest and lending it out again to various enterprises needing special help for their development, and the State will also be restraining some kinds of investment and encouraging others in order to guide new capital into the best channels. But, even so, the private investor, seeking his own profit, will still remain an important source of capital for business development.

This investor will have before him, as he has now, a wide choice of investments—even if, in some measure, the State intervenes to restrict or guide his choice. He will be able to choose, in the first place, among all the types of investment that are open to public subscription, from the latest municipal loan bearing a completely secure fixed rate of interest to the latest speculative offer of ordinary shares in a gramophone concern or a new patent medicine—to say nothing of such overseas investments as are authorised by the National Investment Board. He will be free to choose between debentures, preference shares, and ordinary shares, between public and private enterprise, between lending his money for a term, at interest, and using it to acquire, as shareholder, part ownership of some industrial plant of which the value may rise or fall. He will be able, if he prefers, to hand his money over to an Investment Trust to manage for him; or to put some of it into effecting an insurance, and so enable the Insurance Company to invest it; or even

to leave it in the bank, and so let the banker have it to play with.

Nor does this wide range complete his list of choices. He can, instead of putting his money into any new issue, buy existing shares or stock or debentures either privately or through the Stock Exchange, and so transfer his money to someone else to whom the same range of choice will be open. Indeed, it is common knowledge that in times of industrial depression, when profits tend to be low, many investors prefer playing the stock markets in the hope of capital appreciation of share values to investing in new issues or in any security which they propose to hold for the income to be derived from it. Depression of trade shifts money from investment in new issues to speculation largely in old ones.

The investor, with this wide range of choices before him, picks, warily or foolishly, that which attracts him. The richer he is, the more risks he can afford to take—though many small investors also love a speculative flutter—and the longer he can afford to wait for his return. The small, steady investors, who are not specialists at the game, go, on the whole, for small risks and assured returns, and do not share greatly in windfall profits. The widows and orphans buy 'dud' shares, and get duly 'left'. The richer investors, on the whole, take the bigger risks, because they are less big risks to them, and get the bigger profits.

Clearly, when safe, steady investments are open, men will not, unless they are fools, take big risks unless they believe that they stand a chance of making—and keeping—big profits. If the State proposed to tax big profits out of existence, it would also, as matters stand to-day, make impossible the raising of capital from private investors for risky enterprises. Moreover, subject to certain important reservations, to be made below, all considerable taxation either of business profits as such, or even of incomes, tends to shift the balance against risky and in favour of relatively secure investments.

Any such shifting, however, naturally increases the demand for such investments, and thereby enhances their price. This means that anyone desiring to raise capital on terms which promise a secure return will be able to get that capital more cheaply—that is, by the offer of a lower rate of interest—in consequence of high taxation of profits or incomes. This is a

matter of special importance to the State as borrower. Not only does it affect the rate of interest at which the National Investment Board will be able to borrow sums for re-lending to industry—a most material factor in its success—it affects also the rates at which the State can convert the floating debt as it falls due. And the interest on the National Debt is now so large a fraction of the total national expenditure that this is a point of enormous concern to a Labour Chancellor of the Exchequer in quest of funds for economic development and the financing of social services.

High direct taxation is not, then, from the economic point of view, by any means an unmixed evil. If the State were to enter the new capital market as a borrower on a large scale without taking steps to depress the effective yield on risky investments, the natural result would be a forcing up of the rate of interest it would have to pay. If, by high taxation of profits or incomes from which new capital is drawn, it keeps down the real yield of speculative holdings, it also eases for itself the terms on which it can borrow money at fixed interest, and thereby facilitates its own task of setting the depressed industries on their feet.

Needless to say, this is not the whole story. For, if the capital owner is deterred from speculating in the purchase of shares which he hopes will yield him a high income return, he can take to speculating in capital values, and seek both to maintain his profits and to evade taxation on them by getting them in the form of capital appreciation instead of income. In other words, the State, in weighting the scales against the risky new capital investments, runs the risk of giving a fillip to Stock Exchange speculation. It is therefore necessary to take steps to close this door. The obvious means are, in the first place, a more thorough subjection of profits made in the form of capital appreciation to taxation as income; and secondly, if necessary, a special tax on the transference of shares and other holdings. The former is to be preferred, if it can be made effective by itself. At present, marginal cases are constantly arising. A man whose profession is dealing in stocks is taxed on the profits of his dealing—that is on capital appreciation—because this is his regular source of income; a man who makes a capital profit, but does this by the way and not as a part of his regular trade, is not

subject to tax. The present line of demarcation is thin, and there is no reason why it should not be differently drawn, so as to bring far more of the profits of capital appreciation within the net of the Income Tax authorities.

In considering the conditions affecting the flow of new capital into industry, it has further to be borne in mind that, even if we were to regard the total supply of new capital as a fixed amount, no specific proportion of this supply would be necessarily appropriated to industrial investment. As we have seen, the range of choice open to the owner of capital includes many ways of using his money which are not industrial at all, and many others which do not contribute, at least directly, to the supply of new capital for industrial development. Capital may flow away from productive industry into the subsidiary services of commerce and distribution, in which it may, or may not, minister indirectly to the development of productive industry in the narrower sense. In one sense, of course, commerce and distribution are necessary branches of production, and capital applied to them is productively used. Nevertheless, it is quite possible for an undue proportion of the available capital to be diverted from the extractive and manufacturing processes of industry to the processes of wholesale and retail trade, and for the middleman, instead of performing a useful service in passing goods from producer to consumer, to interpose himself between them, and extract an undue proportion of the purchase price as the reward of his services. Circumstances may arise—indeed, they have arisen during the past few years—which, in many branches of industry, tend to make commerce and distribution better and safer investments for capital than production proper, and thus cause a disproportionate amount of capital to be employed in them, with the result not only of making more difficult the raising of capital for productive processes, but also of wasting a part of the limited supply in redundant commercial and distributive activities. The immense growth of advertising may be, in some fields, a sign of healthy life; but it also often marks the undue inflation of the commercial process.

Not only may capital be *misdirected* in this way within the wide field of industrial operations; it may also, and must to a considerable extent, flow into uses which are not industrial at all. Public loans, designed not for economic development, but

for wars and preparations for wars, or for meeting various unproductive expenses of government, are obvious examples of this. The severe restriction of overseas loans of these types would to some extent stop the drift of capital into them; for home municipal issues are generally required for productive uses and are not open to the same criticism, and the same would apply to the productive State loans advocated in this book. But, even so, a certain amount of the available new capital is bound, under any economic system, to flow into employments which are not industrial at all. Industry is not, and cannot be, the sole claimant to share in the resources available for investment.

There is a further problem in the distribution of new capital, turning on the broad distinction between short-term loans and long-term investments. In considering the uses of capital, we have been dealing so far with the latter—with resources locked up in production or in some other employment over a considerable period. But there is, of course, side by side with this locking-up of money for long terms, a constant flow of liquid resources lent out for quite short periods. Bank credits are the outstanding examples of this employment of money, though they are not by any means its only form.

This distinction should not be confused with the traditional distinction between fixed and circulating capital. For when a man makes a long-term investment in the shares of a particular company, while some of his money may go in the development of the fixed capital of the business, some or all may be used as its circulating capital—that is to say, for purposes which involve its recovery in the course of a single completed business turnover. His capital may go to help the company expand its wages bill, buy extra materials and fuel, and so increase the scale of its output by other means besides the extension of its permanent plant. Indeed, the provision of new fixed capital almost always involves the provision of new circulating capital as well; and commonly the new capital provided by the investor is shared in varying proportions between the two uses.

The entire distinction between fixed and circulating capital has, of course, long been recognised as one of degree rather than of kind. It is useful, but undue stress must not be laid upon it. The distinction we are here drawing between short-term loans and long-term investments, though it is difficult to make precise,

is of a different order. The money used as circulating capital, if it is invested for a long term, is for that term at least definitely allocated to the service in which it is sunk, even if it is not a purchase of share-capital but only a long-term or permanent debenture. The short-term loan, on the other hand—that is, the credit advance by a banker or a trade or financial house—is provided as a rule only for the purpose of carrying through a particular piece of business, and is recoverable for any other use at the end of the stipulated term. Difficulty may, indeed, sometimes be experienced in recovering it; and especially banks are well aware that the problem of ‘frozen credits’ is liable to become serious when industrial depression sets in. But normally the distinction holds, and is best marked by reserving the term ‘sunk capital’ for long-term loans and investments, and using for short-term lendings the common term ‘credit’. It is dealt with, in connection with the discussion of banking policy, in the next chapter.

The new capital available in the community, however, begins its life neither as ‘sunk capital’ nor as the basis of trade or banking credits, but as ‘free capital’ seeking the most profitable outlet. And the one supply of ‘free capital’ has to meet the need both for capital to be sunk in the various forms of long-term loan and investment—public as well as private—and for credits demanded by manufacturers, traders, Governments tiding over a temporary deficit by the issue of Treasury bills, etc., and every other type of short-term borrower. Whether bankers ‘create’ credit, or merely, as they usually prefer to affirm, lend out the balances which their customers leave lying in their hands, it is clear that the supply of credit is not independent of the demand for ‘sunk capital’; for even if bankers lend more than the amounts really on deposit with them—and I doubt if even the astutest bankers can really tell whether they do or not—they clearly have not the power to ‘create’ unlimited credits wholly in independence of the amount of resources at their disposal. And clearly, while a large use of the available supply of new capital as ‘sunk capital’ will tend to restrict the liquid resources available for credits, a large use of it for credit will equally tend to restrict the supply of more solid, or ‘sunk’, capital that can be secured. Both streams flow, in the last resort, out of a single reservoir. If the one tap is turned on more fully, there will be the less to flow out of the other. This is not meant to imply or suggest that the volume of bank and

other credits corresponds or bears a fixed or constant relation to the amount of deposits left lying on the bankers' hands, but only that this amount does influence it and set limits to its possible expansion.

This is, I know, a most cursory treatment of an extremely difficult subject. But I am here discussing, not the policy of the banks or of a Labour Government towards them—that will come in its place—but only the factors, of which bank credit is one, which affect the flow of new capital into industrial uses. Credit, as well as sunk capital, is, of course, applied mainly to meet industrial and commercial demands. And there is no fixed relation between the amount of sunk capital and the amount of credit a business needs, not only because of the wide difference in conditions between the various types of enterprise, but also because businesses of similar type can adopt very different policies in financing their activities. One business may raise enough capital in the form of shares and long-term debentures to carry through its entire turnover without recourse to the banks, and even to have over large surpluses for outside investment, while another may regularly supplement its own resources with overdrafts from its bank or trade credits from the firms with which it deals. Merchant houses engaged in export, for example, very often borrow largely and regularly from the banks, while small tradesmen are often permanently dependent on the renewal of short-term trading credits from the firms supplying them. But there are wide differences in the degree of dependence on credit, as distinct from sunk capital, even among firms engaged in the same line of business. This fact illustrates still further the close interdependence of the supply of credit and sunk capital, for clearly a large increase in either, without a corresponding increase in the total supply of capital, is likely to react upon the other.

It must not, of course, be overlooked that credits are in many cases, though by no means in all, given only on specific security. Even a firm which possesses abundant sunk capital to carry through its transactions without the banker's help may in fact borrow largely from the bank, because it is more profitable to leave its investments outside its own business undisturbed and to meet the bank interest out of the dividends accruing to it from these outside holdings. This occurs especially when the



turnover of the business is seasonal, and its need for circulating capital or credit therefore fluctuates from time to time. It will in such cases commonly pay better to borrow from the bank than to sell out investments and re-invest as the need for the extra resources grows less.

It may, moreover, be most undesirable, from the firm's point of view, to realise its investments. For, while it may hold substantial amounts in Government stocks such as War Loan or other gilt-edged securities, it may also have invested largely in subsidiary or allied businesses over which it desires to maintain its control, or, even if control is not the vital factor, whose shares it does not wish to throw on the market. This investment of a substantial part of the capital of one business in others has, of course, grown very rapidly in recent years, especially since the law gave a privileged position to private companies, and since the amalgamation of separate firms into large concerns under unified financial control gathered strength. These developments, indeed, are among the main causes of the urgent need, mentioned in an early chapter, for a drastic reconsideration of the basis of our company law.

In effect, capital invested in subsidiary or allied concerns, though it may remain in a sense circulating capital to the investing firm, becomes fixed capital to the extent to which it is sunk in plant and equipment by the firms in which it is invested. This fact makes it impossible, in practice, to draw the line between fixed and circulating capital even as clearly as it used to be drawn. For in effect the banker enables the investing concern to convert the capital of its subsidiaries, even if it has been put to use as fixed capital, to the performance of the functions of circulating capital in its own business.

The available new capital arising at any time in the community may, then, be either sunk by long-term investment or kept liquid in the form of short-term loans. If it is sunk, that is an end of the matter; for in the main its uses, and even its very existence, come to be bound up with the subsequent prosperity of the concern in which it has been sunk. This is, indeed, not true of the long-term borrowings of stable Governments which can be relied upon to pay their debts; for capital sunk in their stocks is guaranteed against loss of nominal value—though not, of course, against changes in the value of money. A

hundred pounds of five per cent War Loan may rise or fall in realisable value above or below one hundred pounds according to changes in the rates of interest and profit obtainable for new money. But it means an assured income of five pounds a year, and, if the stock is not consolidated, the right to receive one hundred pounds in payment at the end of a stipulated period. One hundred pounds sunk in thoroughly secured debentures—not, be it noted, in any debentures—has much the same properties. But a sum of one hundred pounds invested in the shares of any business stands on quite a different footing. Not only may its realisable value rise in any degree, or fall, or totally disappear if the business fails: its annual yield is also variable with the profits of the business, and there is no right of repayment of any specified sum at any future date. The shareholder becomes part-owner of the business: he owns, no longer money, but a proportion of its assets; and on the value of these assets—on their capacity to yield income—depends the value of his holding. This is true even of the preference share bearing only a stated rate of 'interest'; for, unless the requisite profits are made, this 'interest', which is not really interest at all, but a limited and conditional share in profits, will not and must not be paid. It is unlawful, save under quite exceptional circumstances in the case of new businesses, to pay dividends out of capital, whereas debenture interest has to be paid whether a profit is made or not.

Whatever the differences may be from the investor's standpoint, all the above forms of long-term investment are, from the standpoint of the community, sunk capital—capital disposed of, and defined in its use for at least a considerable period. The only qualification this statement needs is that, as we have seen, some capital that is sunk by the investor may remain liquid—not sunk in the business or a concern subsidiary to it—in the hands of the firm whose shares or debentures he holds. We can, however, for our present purpose, ignore this qualification.

Short-term lending stands on quite a different footing. Apart from the special problem of 'frozen credits', it can be rapidly diverted in large masses from one use to another. It can flow quickly into industry or out of industry—into Stock Exchange speculation, for example. It can move swiftly abroad or back again, in order to take advantage of higher rates for money prevailing in different markets. British balances can flow quickly

abroad, and foreign balances can flow to Great Britain if money market conditions are favourable. Increasingly, with the effective shortening of world distances and the linking up of banking and financial activities into close international co-operation, the supply of short-term resources is coming to be a world supply. The supply of 'sunk capital' is also, of course, international to a considerable extent; for developed industrial communities invest largely abroad as well as at home. But the supply of money for short-term lending is far more international, and is not, like 'sunk capital', pegged down lastingly to a particular use by one process of lending. It remains fluid through its whole period of existence.

In considering the supply of capital for industry, a Labour Government has therefore to bear in mind, in the first place, the close connection between the available supply of capital for sinking in permanent or long-term investments and the supply of short-term credit, and, in the second place, the fact that, even if the supply originating within the community is taken as fixed, this does not fix the total supply, which is to some extent international, and especially so in the case of short-term credit. This elasticity of supply is, of course, increased by the fact that British capitalists have large holdings of property abroad, and may, instead of receiving the interest in these holdings for spending or investment in Great Britain, leave them abroad, and invest or lend or spend them out of the country without using the services either of British industry or of the British capital market. Sums so employed, except in so far as they are ultimately brought into the country, are in effect part of Great Britain's wealth only to the extent to which they provide for the maintenance of British citizens or can be effectively subjected to British taxation—which is often by no means an easy matter.

The dangers commonly held to be involved in high taxation, and in the use of it for the redistribution of wealth, fall into two groups. It is urged, in the first place, that the effect will be to prevent the investment or lending of foreign capital in Great Britain or even abroad through the intermediacy of the London money market—still the effective centre of European and Imperial finance, and of a good deal of financing for developments outside Europe and the Empire. It is urged that it will encourage British capitalists to leave the interest on their holdings to

accumulate abroad, and to devise means of evading taxation upon them; and that it will even cause them to emigrate permanently with their capital to less Socialistic political climates. These effects, it is said, will prove to be beyond the power of any Government to prevent or check.

It must, of course, be agreed that high taxation is a deterrent to the investor, if he can find means of investing his money with equal profit where taxation is less. And it is highly probable that any attempt to move towards Socialism in this country will, for a time at least, tend to check the flow of foreign capital into this country, both for direct investment here and for investment through London abroad, and also for short-term lending as well as for long-term use. This does not mean that the supply of such capital will stop or can be lastingly decreased—for that will depend, in the long run at least, on the relative profits of investment here and elsewhere. But it is likely to be checked; and this is a situation which the Labour Government must be ready to face. It is also probable that some of the capital now invested abroad will cease to send interest here, and that attempts to evade taxation upon it will increase. But our Income Tax system is highly efficient—many Income Tax-payers sigh at its efficiency—and even if loss from this source is inevitable, it is not likely to be very serious. Nor can capitalists fly the country with their capital as easily as is often suggested. A few more rich people may settle on the Riviera, or under the benign rule of Fascism further south; and they may succeed in taking some capital with them. But one is at least tempted to suggest that the gain is in this case worth the loss.<sup>1</sup>

The second group of objections raises far larger issues. High taxation, it is suggested, will not only divert capital now used in this country, or at least directed to uses abroad through London, away from Great Britain, but will also dry up the

<sup>1</sup> A more serious point is that some capitalist concerns now operating partly at home and partly abroad might transfer an increasing proportion of their operations to foreign countries, with a view to removing their capital gradually by this means from the control of a 'socialising' Government in Great Britain. It is certainly true that this might happen, and that it would call for a speeding up of measures of control over any enterprises that were attempting to pursue this policy. The real answer to this point is, however, to be found in the proposed control by the State of the investment market and of the application of the accumulated reserves of the great capitalist concerns.

stream of capital originating at home. High—and more especially steeply graduated—taxation lowers the disposable income of the rich capitalist; and the higher and more progressive the rates of direct taxation, the more this result follows. The capitalist whose 'savings' represent the surplus over what he wants to spend will, it is urged, meet higher taxation in the main by reducing, not his personal expenditure, but his 'savings'. This will not, indeed, be true of all savers; for there are many who save for a particular purpose—the achievement of a competence for old age, the education and launching in life of their children, security against the contingencies of sickness or accident, and the like. These may, in many cases, save as much as before out of reduced incomes; and, if the additional taxation is levied mainly on the largest incomes, they will in any case be relatively little, and often not at all, affected by it. For these are the smaller savers. But the really rich will heavily curtail their contribution to the annual supply of new capital; and on them, under our present system of an exceedingly uneven distribution of wealth, the country largely depends for this supply.

As far as the main mass of saving directly effected by individuals is concerned, this view is probably correct. High taxes on the larger incomes will cause a substantial immediate fall in the 'savings' of the rich; and, if the proceeds of the new taxes are then redistributed among the poorer sections of the people in the form of family allowances and social services, it is clearly unlikely that the increased savings of the poor, though there will be some increase in them, will compensate for the falling off. We must accordingly anticipate, immediately, a fall in the supply of new capital arising from individual 'savings' as the result of a policy of high taxation for the purpose of redistributing incomes.

This, however, is by no means so serious as it may sound at first sight. For, in the first place, the statement made above refers only to individual savings. But, in fact, an increasing part of the new capital which flows each year into industrial and commercial enterprise is not now accumulated individually at all. It is provided directly by joint-stock companies and other corporate bodies through the allocation of a substantial part of their profits to reserve. Various estimates have been made of late, before the Colwyn Committee and elsewhere, both of the annual

volume of the 'national savings' as a whole and of the proportion of them arising in the form of business reserves. In the recent Liberal Industrial Report, where the question is fully argued on the basis of expert estimates laid before the Colwyn Committee, the annual amount of these reserves is estimated roughly at £195,000,000, out of a total 'national saving' of roughly £500,000,000 a year. On this showing, nearly two-fifths of the total saving originates, not in the hands of individuals at all, but through the collective agency of joint-stock concerns. This 'saving', of course, becomes the property of individuals—the shareholders in these concerns; but it is accumulated for and not by them, and often independently of and sometimes against their will. The smaller shareholders, at any rate, would usually prefer larger dividends.

These two-fifths of the total annual 'saving' represent far more than two-fifths of the new capital applied to home industry. They are not, of course, by any means entirely so applied themselves; for they include reserves of British companies which are partly used by them in operating either directly or through subsidiaries overseas, and a part of them may be invested outside industry or in other overseas enterprises. But, even when all this has been admitted, they represent by far the larger part of the total supply of new capital flowing into British industry. The same Liberal estimate gives a total of £100,000,000 for our annual foreign investment of new money, and only £25,000,000 as the total sum accruing as new capital to private enterprises of all sorts through the process of individual investment. This last figure does not include the productive borrowings of State undertakings or local authorities, or certain quasi-public concerns, or the sums spent by private persons on house-building. But it does include all industrial and commercial issues for home use, with these exceptions. Mr. Coates, in his evidence before the Colwyn Committee, gave for the year 1924 estimates which led substantially to the same conclusions. His figures were: for undistributed profits, £194,000,000; for internal issues for investment overseas, £135,000,000; and for new issues for use at home, £89,000,000. This last figure, of course, includes the public and quasi-public securities excluded from the Liberal estimate of £25,000,000.

British industry, then, is at present financed mainly, not by

means of the savings effected by individuals out of incomes distributed to them, but by the collective 'savings' of corporate concerns. The individual 'saver' does relatively little to finance new private business enterprise; and even when, as commonly happens, he buys old shares in existing concerns, the money he pays over for them does not flow mainly into new industrial enterprise. Industry, to a large and growing extent, finances itself directly out of its own profits, and a very large part of the sums used for its development does not first become part of the disposable income, though it does become part of the capital wealth, of any individual.

But, it may be said, joint-stock companies will change their policy if the State raises its rates of taxation; for shareholders will insist on getting a larger return if they have to pay more in taxes. Will they? Accumulated profits placed to reserve, if they appear in business balance-sheets, are subject to Income Tax as if they formed part of the incomes of individuals. Probably there is a large sum annually evading taxation because it does not appear in the balance-sheets and accounts of the firms which have made it, or because it can be brought under the heading of capital appreciation as opposed to income. But of this no account has been taken above. And clearly the accumulation of hidden reserves that can evade taxation is likely to be encouraged rather than hindered by the raising of the rates of taxation.

There remains the huge mass of declared profits annually retained in the businesses which have made them. These profits are at present taxed at the standard rate, whereas, if they were distributed to the shareholders, each holder would pay tax at a rate varying with the size of his total income. It follows that every shareholder who would have to pay more than the standard rate gains by leaving the profits in the business, whereas every shareholder who would have to pay less loses. The accumulation of profits as reserves benefits the rich shareholders who pay supertax—to which reserved profits are not subject—and hurts the poor shareholders. Is it not, then, certain that the effect of raising the rates of taxation on the larger individual incomes will be to make their owners even more eager to take advantage of this excellent opportunity of paying taxation at less than their appropriate rates? Highly progressive taxation will strongly encourage the larger shareholders, who are in nearly all businesses

the controlling influence, to push further the policy of accumulating reserves.

It is, of course, quite true that these shareholders can, in the matter of income, eat their cake as well as have it, if they so choose. For, having escaped the higher rates of taxation on the reserves because they have not entered into individual income, they can always sell some of their shares and spend the proceeds on riotous living, thus getting the reward of making a contribution to the accumulation of capital without making in fact any contribution at all. Or they can spend more, and save less than they would otherwise have done, out of the dividends which they do receive. This latter they undoubtedly do, to a considerable extent, and will continue to do, if the rates of taxation on the larger incomes rise. The effect, of course, is, in the former case, to absorb a certain amount of the available new capital in the purchase of the shares which they place on the market; and in the latter, to diminish the funds available for investment out of individual 'savings'.

It is likely, then, that apart from the sums deliberately guided under State direction into channels regarded as socially useful, British industry will have to rely in future, even more than it relies to-day, on the accumulation of capital out of reserved profits. The financing of industries through the National Investment Board, however, will not be in any way interfered with by this, as the fixed interest loans raised by the Board will appeal to a different class of investors from those now chiefly interested in industrial securities. The State will raise its money largely from the small and middling investors, who want a safe return more than the chance of exceptionally large profits, and perhaps from corporate bodies seeking gilt-edged securities as collateral for bankers' advances. For the Investment Board's loan stock will, of course, rank as a trustee investment, and thus be a desirable asset for business men as well as for small investors. That this is a material point can be seen from the reluctance of some City opinion to speed up greatly the repayment of the National Debt, for fear of diminishing seriously the supply of gilt-edged collateral; for even if this argument is not taken at its full face value, there is undoubtedly something in it.

Apart from the activities of the Investment Board and the private financing of new inventions and other speculative enter-



prises, it is clear that reserved profits are likely to play an even larger part in the future capitalisation of British industry than they do to-day. This is often used as an argument for exempting companies from taxation on profits placed to reserve, or at any rate from any special surtax on investment income such as the Labour Party recently proposed. Before this argument is accepted, however, it is well to remember that for all the larger investors there is already a considerable preference. Any further relief, or any proposal to exempt reserves wholly from a future surtax, would need very careful consideration; for if, as we have seen to be likely, higher taxation in itself leads to a further extension of this method of accumulation, any further inducement will probably be unnecessary. It would, moreover, mean the making of a huge present in remitted taxes to the very section of the community which it is desired to tax most heavily because it possesses the greatest ability to pay without hardship. If any fresh inducement were needed to encourage the accumulation of reserved profits, it would probably be better secured by making it compulsory for all concerns—or at any rate all joint-stock concerns—to reserve a certain proportion of any profits over and above a given standard, based on the experience of previous years, than by any offer of special tax remissions.

High taxation, designed to redistribute incomes, will probably lead to a diminution of individual saving, until the standard of life has been so raised as to bring a compensating number of smaller investors into the field. This will make it harder for joint-stock concerns to raise capital from the general public, and will tend to drive them, apart from the reasons given already, to an increasing adoption of the method of financing themselves by the accumulation of reserves. This in itself clearly makes the State control of the flow of new capital in this or that direction harder; for the use made by companies and firms of their own internal accumulations is very difficult to regulate by any direct means. The State, in all probability, will have at the outset of its new policy to leave this question alone, even under a Labour Government, and to concentrate on directing into the most useful channels the savings in private hands which are seeking a profitable outlet. At a later stage, it will certainly be possible to control the use by firms even of their own internal accumulations—and this can be done at once to some extent wherever State control,

or socialisation in any of the forms suggested in an earlier chapter, is brought into force. A Labour Government, however, will be wise to begin with the simpler part of the problem, and to confine itself at the beginning to the control of the direction of individual savings—by prohibiting certain uses of capital, by allowing others only under licence, by encouraging yet others by guarantee, and by undertaking itself the responsibility for yet others under the auspices of the Board of National Investment.

Economy in the use of the available capital will, of course, be indispensable. And accordingly the State will need to take more effective steps to prevent waste, and to attract the resources especially of small investors into the right employments. There is no one means of doing this; but there are a number that can be usefully tried. For example, the development of the Post Office Savings Bank offers obvious opportunities of placing additional assets directly at the disposal of the Board of National Investment, especially for the making of advances to needy industries, not permanently, but for a period of years. For a savings bank differs from an ordinary bank in that it is used, mainly, not for the keeping of current accounts, which form a basis only for short-term credit, but for the making of deposits which are meant to accumulate for a period, and can therefore form the basis, if desired, of longer-term loans. The function of the State as a provider of long-term credit, as distinct from the short-term credits provided by the joint-stock banks, is one that is likely to become increasingly important in both agriculture and industry; and the development of the Post Office Savings Bank, coupled perhaps with the nationalisation of the Trustee Savings Banks, should be considered from this point of view. Similarly, municipalities should be accorded full freedom to establish banks of their own, on the Birmingham model, in order to be able to finance their own public services, and save money thereby.

A far more important source of fresh investing power for the State is to be found in the great service of insurance. The insurance business is admirably adapted for public ownership. It is, with even moderately efficient management, a safe source of profit; and it carries with it, above all, the control of a huge mass of capital available for investment. The insurance com-

panies and societies are among the greatest investors in Great Britain; they hold already a great volume of accumulated capital; and their power grows steadily as more and more risks become insurable on an actuarial basis, and as the habit of insurance grows among widening sections of the public. Insurance is surely the most simply and obviously nationalisable of all industries and services. At present, especially in its industrial branches, it is very wastefully carried on. Where the State can at once make a profit, save the insuring public a good deal of money, and secure control of a big block of existing capital and a steady flow of new capital available for industrial development, the case for complete public ownership is plainly overwhelming. The next Labour Government should take the first convenient opportunity of nationalising the whole regular business of insurance on an actuarial basis. And, of course, this should be done, not by buying out the existing shareholders by means of a new loan, but, as was suggested in general in an earlier chapter, either by taking over the claims of the shareholders as they stand, and then amalgamating them on the lines followed in the Railways Act of 1921, or by issuing to them new shares in a socialised service in exchange for those which they now hold.

If these steps are taken, there is no real reason for supposing that the supply of capital will not be fully adequate to national needs, even if the State follows progressively a policy of redistributing incomes by higher taxation of the richer sections of the public. For it is evident that of the capital now raised annually a great deal goes wholly to waste, a great deal more does nothing to help British industry, and much even of the remainder is not used to the best possible national purpose. Moreover, the right application of new capital can be, as we have seen, a most powerful instrument for the conservation of capital already invested. It can save great masses of existing capital in the depressed industries from sheer destruction, and can thus, by setting these industries again on their feet, effect an infinitely greater conservation of national resources than is likely to be accomplished by leaving the present processes of 'free enterprise' to take their course.

What is fundamentally important in the provision of capital for national development is not the maintenance of a class so rich as automatically to 'save' a large part of its surplus income,

but the provision of a greater total income for the community as a whole. If only actual production can be brought more nearly up to a level with technical productive power the problem of adequate capital accumulation will be immensely simplified. The more effective utilisation of the national economic resources must therefore be the first object of public economic policy; and attention must be directed rather to the wealth that is not at present created at all than to increasing the proportion saved out of the existing national revenue. Inevitably, the practical transition to the new point of view presents considerable difficulties; and of these the Government which has the courage to initiate the transition will have largely to bear the brunt. Fortunately, it is out of the question for a Labour Government to avoid shouldering the burden. It must tax the rich more heavily, and it must therefore take the necessary measures to provide a substitute for the function now performed by the rich investor who automatically turns his surplus income into new capital. This involves a policy in two stages, designed first to promote the utmost economy in the use of the available capital under the immediate conditions, and, secondly, so to increase the national production as to provide a far more abundant flow of wealth, from which in the future an increased supply of capital can be more readily drawn.

The method of drawing this larger supply of capital is likely to be, for Socialists, as now increasingly for business men, accumulation directly out of the proceeds of business enterprise in preference to the time-honoured way of individual saving. It is clearly wasteful to distribute as incomes to individuals sums which it is necessary subsequently to attract back from them for economic development. It would be far better, broadly speaking, to distribute as incomes to the members of the community only those sums which the community can really afford to let them spend as they please, withdrawing in advance of the distribution of incomes all sums required either for current public expenditure or for investment in services of national importance. No such plan as this can be developed suddenly; but as socialistic methods make headway, this method is likely to be progressively introduced. The way is being prepared for it already by the rapid growth of the practice of collective saving in capitalist joint-stock institutions; and this practice should

clearly be preserved and extended in industries or services under public ownership or control.

This amounts in effect to a general system of taxation at source, levied on all incomes possessing an economic surplus before they pass into the hands of those to whom they are due. In the long run, it will probably mean the levying of all taxation directly, not upon individuals, but upon the various productive industries and services, in accordance with some principle of ability to pay and social valuation of the importance of minimising or maximising the demand for their products. Just as the State now imposes special taxation on brewers and distillers, or rather on their products, so it will in the future probably levy all, or most, taxation in this way, when the means of production are no longer privately owned and there remain no swollen incomes on which special taxation has equitably to be placed.

Clearly, however, there are at present insuperable objections to the adoption of this method of taxation. For it would amount to a system of taxation on commodities; and this, in face of the present grossly unequal distribution of income, would obviously be bound to react unfairly on the poorer sections of the community. The objection is, however, based purely on this unequal distribution of income; and the more equal the level of incomes in society can be made, the more it will tend to disappear and the direct financing of the costs of government out of the takings of industry come to be accepted as the easiest method of raising the public revenue. But for the present it will be necessary to concentrate on the prior problem of progressively substituting collective for individual savings as the means of providing industry and commerce with the new capital which they require.

This long discussion of the question of capital supply has been unavoidable, both because the commonest objection to a Socialist economic policy is nowadays based on the fear that the supply of capital will be dangerously diminished by it, and because it is of vital importance that the real problem which the supply of capital presents should be rightly handled by the next Labour Government at the outset. There is no need to fear the effects of higher taxation, if the right constructive measures are adopted to create alternative arrangements for the utilisation of capital, and if a courageous policy of national economic development is set on foot. Without these correctives, high taxation of

the rich might have some of the evil consequences which its opponents predict. For the present economic order has been built up on the assumption of a grossly unequal distribution of wealth and incomes; and we cannot expect to be able to change one feature of it without the necessity of radically changing others, or without incurring, in the transition, difficulties which it will need wise statesmanship to overcome without a good deal of temporary dislocation.

## CHAPTER XI

### BANKS AND CREDIT

The dislocation of the financial mechanism by the War—Its consequence in the activities of 'currency cranks'—Necessity of tackling the financial problem—The power of the banks and the City to embarrass a Labour Government—The present banking system considered—The Bank of England as the chief controller of the volume of credit—The joint-stock banks as the chief controllers of its direction—The competing demands for credit—Position and functions of the Bank of England—And of the joint-stock banks—The question whether bankers 'create credit' further considered—How the Bank of England controls the volume of credit—Bank Rate and open market transactions—The rate of interest and the demand for money—Bankers moved less by the profit motive than by their ideas of 'sound finance'—The insistence on the 'liquidity' of banking resources—How the banks restrict credit—The problem of 'frozen credits'—Does banking policy favour speculation at the expense of industrial needs?—The reluctance to grant long-term credits—The London financial houses and their work—Do bank credits involve inflation?—The quantity theory of money—The relation between credit and currency—The expansion of credit and the price level—The gold standard and its effects—Can credits be issued more freely?—Yes, if production can be increased—The State must socialise the Bank of England—And place it under an expert commission—It must also socialise the joint-stock banks—But not the financial houses at present—The economics of States banking considered—Financial policy an essential element in the revival of industry—But finance cannot create—It is a vital, but subsidiary, instrument of economic reorganisation.

No question of Labour policy has been discussed at such length of late years as the attitude of a Labour Government towards the banking system. This is natural; for the dislocation of the world system of finance by the war, and the almost universal plunge into some form of monetary inflation, led inevitably to the placing of an exaggerated emphasis on the economic influence of financial machinery. It was seen that financial dislocation could make trading relations very difficult, play Old Harry with the relationship of debtor and creditor, cause wild fluctuations in the

cost of living, and, by demanding constant wage-readjustments, make economic prediction, and therefore forethought, almost impossible—and, in general, so unsettle everything and everyone as to make the wildest theories seem plausible. It was readily concluded that the power of 'right' finance for good was as great as the power of wrong finance for evil; and that if we could only discover the true art and mystery of banking, the land would flow with milk and honey, even if no other changes were introduced into the social order. Some blamed the gold standard, others the departure from it, for most of the world's troubles. Some said the wicked bankers had caused the post-war slump purely out of the blackness of their own hearts; while others said that all would speedily come right if only the nations of the world would take the bankers' advice, stabilise their currencies, lower tariff walls, and eschew all State borrowing and all confiscatory legislation. As in most economic crises in the world's history, projectors appeared, armed with new and perfect schemes for regenerating the world by the more liberal issue of credit; and, amid the contending din of cranks and experts, the plain man, sorely puzzled to know which was which and not a little distrustful of both, usually ended by holding a curious hotch-potch of inconsistent opinions.

Recently, the tumult has become less deafening; for, as one country after another has accepted the dicta of its bankers, and returned to some sort of financial stability, based usually upon the traditional belief in the gold standard, most people have become content to regard the problem as settled somehow, and anxious mainly to avoid having it reopened. The currency cranks are now a good deal less vocal; or, if they are still talking, there are far fewer listeners to attend to what they say.

Nevertheless, there is a financial problem to be tackled, and the next Labour Government will have to deal with it at an early stage in its career. For clearly the banks and the City could, as matters stand, make the position very difficult for a Government of whose policy they strongly disapproved. The present system of public finance is based on the very close interaction between the Bank of England and the Treasury, on terms which make it impossible to regard either as the subordinate of the other. The Government depends on the City for the short-term credits which are necessary to carry it over the lean periods of the finan-



cial year. Banks and finance and business houses, as large holders of Government stock, could make matters very awkward for a Labour Chancellor of the Exchequer engaged in some delicate operation involved in debt conversion or the raising of new loans. The joint-stock banks, by discrimination in the granting of credits, could largely neutralise the effects of the policy of national industrial development outlined in earlier chapters of this book; and the Bank of England, by manipulating the bank rate, or even by transactions in securities, could go a long way towards causing an industrial depression, for which the Government would inevitably get a large share of the blame.

If only for these reasons, it would be clearly impossible for a Labour Government engaged in carrying through a serious policy of industrial socialisation to leave the banking system uncontrolled. But there are other reasons no less cogent. The banks are, as we have seen, the chief suppliers of business credit; and credit, no less than capital, is indispensable to the conduct of modern industry. Any reorganisation of industry is bound to involve an adaptation of the machinery of credit as well. If the Government proposes to direct the flow of capital in the light of national needs, it will have to secure that credit flows the same way. And this involves some sort of control over the banking system.

The British banking system, as it is to-day, falls broadly into three sections—the Bank of England, the great joint-stock deposit banks, and the more specialised finance houses which concern themselves with foreign trade bills, with new capital issues, and with the varied business services on which London's position as a world financial centre is largely based. The two former groups mainly concern us here—the Bank of England, as the chief controller of the volume of credit, and the joint-stock banks, as the chief controllers of the directions in which it flows. The joint-stock banks have, no doubt, some influence over volume; for they lend, within limits, more or less freely according to their conception of the economic outlook. But in the main the volume of credit depends upon the Bank of England, working, of course, in its turn within limits set for it by the movement of world economic forces. The Bank of England has, on its side, some control over the direction in which credit flows; but it has few effective means of controlling direction except by controlling

amount. In the main, it is left to the joint-stock banks to decide to whom they shall lend and to whom refuse accommodation.

This distinction—often obscured by simple statements that the banks control credit—is of vital importance. For a mere increase in the amount of credit might only increase undesirable speculation unless it were rightly directed; and an attempt to change the direction of credit might easily be thwarted by a restriction in the total amount available. The next Labour Government will need to ensure both a sufficient amount of credit to finance an expansion of industry, and the direction of this increased amount into the right channels. It will have, therefore, to deal with both the Bank of England and the joint-stock banks.

Just as there are numerous claimants for a share in the available supply of capital, with many different suggestions for its profitable use, so there are many claimants for a share in the supply of credit. But there are certain important differences. New capital, apart from the accumulated reserves of the great concerns, is in many different hands, from which it is gathered together into large masses by the process of investment through the capital market. Credit, on the other hand, while in its special form of trade credit it is widely diffused, is, in its principal form of bank credit, highly concentrated, and under strong co-ordinated control. Secondly, whereas the supply of new capital is relatively a fixed amount, depending on the volume of the national savings, credit has no existence until it is actually granted, and is a variable amount, determined by the policy of the bankers in the light of their estimates of the economic situation. There are, doubtless, important limitations to the power of the banking system as a whole to 'manufacture' credit; but the fact remains that the banks—the Bank of England and the joint-stock banks—are the judges of the expediency of granting or refusing it, and therefore, within these limitations, control its amount and its direction.

Again, just as there is no separate supply of capital devoted to industrial needs but only a general supply on which all the claimants—Governments, manufacturers, traders, and financiers of all sorts—have to draw, so there is no separate supply of credit assigned to industry. The bankers grant credits not only to industrialists and traders, but also to Governments, to financiers, including bankers abroad, and indeed to any customer who is of

sufficiently good standing to merit an overdraft, for whatever purpose he may require it. All the borrowers draw from the same supply, and, in the main, deplete the supply in the same degree, though as the supply itself is not fixed, but variable, it does not follow that what one gets diminishes the amount left for the others to any fixed extent.

The chief actual distributors of credit are the joint-stock banks. The Bank of England, though it makes advances to the Government and, on occasion, to its other customers, is not ordinarily a great lender. While it is the chief agency influencing the total amount of credit available, its influence is mainly indirect, and is exerted in determining rather what shall be lent by others than what it will lend itself.

The Bank of England, of course, owes its distinctive position to the fact that it is the banker both of the Government and of the joint-stock banks, and to the authority delegated to it in the management of the currency. Now that the Treasury Note issue has been handed to it, under conditions which make it, rather than the Government, the effective controller of its amount, the Bank has completely regained the powers of currency management which it enjoyed before the War. Currency is, however, a relatively unimportant matter; for the amount of credit available, far more than the amount of currency, counts in determining both the price level and the amount of industrial activity. An increase or decrease in the supply of currency is, under normal conditions, rather a consequence than a cause of changes in the supply of credit. Wise management of the currency—especially of a paper currency—is indispensable. But it is now a secondary function of the financial machine in this country. The amount of currency is, in the main, the logical sequel to the amount of credit.

The really vital functions of the Bank of England are those which arise from its position as banker to the Government and to the joint-stock banks. Its position as banker to the Government involves a collaboration between the Bank and the Treasury so close that it is often impossible to distinguish between them in matters of policy. The Bank not only lends money itself to the Government, in order to meet the deficits which arise at certain times during the financial year, but also acts in close collaboration with the Government in deciding when and how the latter

shall borrow from the money market in the form of Treasury Bills, and gives important advice to the Government when it is considering whether and how such delicate operations as the funding or conversion of unfunded debts shall be undertaken. All these operations exert a powerful influence on the money market as a whole; for Government borrowing is an important factor in determining monetary conditions. The Bank can, therefore, in collaboration with the Treasury, use its position as the Government's banker so as to exercise a large measure of control over the rest of the financial world. It could also, under present conditions, make itself extremely unpleasant to a Labour Chancellor of the Exchequer who disregarded its advice. It is, indeed, probably nearer the truth to say that the Bank of England controls the Treasury than that the Treasury controls the Bank.

As the 'bankers' bank, the Bank of England holds the main balances of the joint-stock banks. The latter do not themselves keep any large reserve supply of gold, or even of notes convertible into gold on demand. In actual currency they keep as a rule only 'till-money'—only the sums needed to supply their customers with the cash they want. As the vast majority of large transactions are settled by cheques or trade bills, the demand for cash is tiny in relation to the volume of business transacted. Accordingly, the joint-stock banks keep their balances at the Bank of England, whence they can always get cash if they want it; and it is a function of the Bank of England to keep a reserve of cash sufficient to supply their needs as well as its own. It holds, indeed, under post-war conditions, the great bulk of the nation's store of gold. Most of this is held directly in reserve against note-issues; and it forms the gold basis of the imposing structure of bank credits.

The chief actual issuers of credit are, as we have seen, the joint-stock banks. What determines the amount they are prepared to issue? The question is often asked whether the banks 'manufacture' credit, or merely lend out to one customer sums actually deposited by another. The question is often answered; but it is really quite unanswerable. The banker, in deciding how much to lend, looks at the amount, not of his deposits, but of his reserves of cash and of resources easily convertible into cash at short notice—bank-notes counting for this purpose as cash. It would be useless for him to be guided by his deposits; for every

credit granted normally creates an additional deposit, on which the borrower is entitled to draw. He pays away his drawings to his creditors, who usually pay them into their own bank accounts. The 'deposits' of each bank are thus in part made up of credits granted by itself and by other banks, and can give no guidance to the amount of real resources available for lending. The banker, while he keeps an eye on the amount of deposits as a clue to the general condition of business, is guided in giving or refusing credits to his own customers mainly by quite different considerations.

Every credit granted gives the borrower a right to draw on the bank up to the amount allowed. When he pays away the borrowed money, some of it comes straight back to the same bank through the account of the person or firm to which it has been paid away, more goes into accounts at other banks in Great Britain, and some may be paid away to foreign creditors of the borrower. If one joint-stock bank grants credits more liberally than the others, it will have, on balance, to pay away considerable sums to them, and either to sell securities on a large scale in order to get the wherewithal to pay, or else to deplete its own balance at the Bank of England. In practice, this happens but little; for all the joint-stock banks nowadays work closely together, and follow in the main a common policy.

This being so, it may appear that there is nothing to prevent them, as long as they all act together, from increasing their credits indefinitely, since every increase will bring each bank as much back in deposits as it pays away in advances. But increased credits mean in practice an increased demand for cash; for, while the larger transactions are settled mainly by cheque, each large transaction usually carries with it a number of small ones, for which actual currency is needed. For example, more is paid in wages, and this means a larger demand for notes and small coin. But the supply of these is controlled by the Bank of England in conjunction with the Treasury, and not by the joint-stock banks. A shortage of currency would, therefore, check the expansion of credit before it had gone very far; but in practice this limitation hardly arises, because other forces come into play before it is reached.

These other forces also proceed from the Bank of England, which at present influences the amount of credit mainly by two

devices—by moving the Bank rate up or down, and by the purchase or sale of securities in the money market. If the Bank of England considers that credit is being granted too freely, or the reverse, it will probably use one or both of these methods in order to correct the supply. Any major adjustment will almost certainly be inaugurated by an alteration of Bank rate—that is, of the rate at which the Bank of England is prepared to discount commercial bills of good standing. A change in Bank rate at once sets up reactions in every quarter of the business world; for all that world is constantly watching the policy of the Bank and to a great extent modelling its policy upon it. In particular, if the Bank rate rises or falls, the rates of interest charged and allowed by the joint-stock banks normally rise or fall with it, and over a wide field of industrial, commercial, and speculative business operations, the operators have to adjust their activities to the changed price of the commodity—money.

The Bank of England has, of course, no legal power to enforce its rate on anyone. It merely declares at what rates of interest it is prepared to discount bills, or in other words to lend money, and leaves the joint-stock banks and the financial world generally to take account of its decision. But these have, in practice, usually to follow its lead. On the face of it, there may seem to be no reason why the joint-stock banks should not disregard a rise in Bank rate, and continue to lend to their customers as freely and as cheaply as before. But if they did, the Bank of England could soon make matters awkward for them, both by the use of its power as the Government's banker to draw liquid money resources off the market into its hands, and by using its second weapon—dealing in securities. Every time the Bank of England buys a security it pumps fresh liquid resources into the money market by paying for it; and every time it sells a security it draws out of the money market the sum paid for the security sold. In the latter case, the buyers of the securities will pay the Bank of England by means of cheques drawn on the joint-stock banks, which will thus find their balances at the Bank of England reduced, and their cash reserves—on the basis of which they grant credits—depleted. The Bank of England, for its part, can simply cancel this money by withdrawing bank-notes from circulation, and so leave a diminished quantity to finance the services for which the joint-stock banks

are granting credits. The Bank of England has the power, by these and other means, of creating a financial stringency, and thus of compelling the joint-stock banks to restrict the amount of credit they are prepared to grant to their customers.

The joint-stock banks are thus largely controlled in the last resort by the Bank of England, as far as the total amount of their outstanding credits is concerned. This does not mean that they are its victims; for they usually follow its lead willingly, and not perforce. They do not necessarily make less profit by doing this. Indeed, they may make more; and they certainly gain in security. One of the most remarkable phenomena of modern industry is the degree in which banks have succeeded in making their profits secure in good and bad times alike.

Money is like other commodities—*ceteris paribus*, the cheaper it is offered, the more of it will be demanded. A rise in the rates of interest will always choke off some potential borrowers who find that they cannot use the money with profit if they have to pay more for it; and a fall will always cause some additional borrowing. This, of course, does not mean that money has any fixed elasticity. In one set of circumstances, a rise or fall of one per cent. in the rates of interest will exert a big influence on the demand for credit; in another, its effect may be relatively small. On the upward gradient of a trade boom, for example, a small rise in interest usually restricts borrowing but little; for business men are in an optimistic mood; and disposed to risk paying more for the use of money in anticipation of rising prices and margins of profit. And, during the down-grade of a trade slump, a fall in interest rates often produces little expansion in the demand for credits; for the lowered charge for the use of money is often not enough, in face of falling prices and margins, to turn unprofitable into profitable openings for business enterprise. Moreover, men are then disposed to pessimism, no less than to optimism during a boom.

The joint-stock banks desire to charge the rates of interest which will, on the whole, give them the maximum profit. But they are concerned, not only with the immediate profit to be derived from lending, but also with the effects of their policy on the capital value of the great masses of securities which they hold. They may get more immediate profit by lending large sums at a lower rate than smaller sums at a higher rate of interest, or

*vice versa*; but these will not be the sole considerations in their minds. In a boom period, the banks lend a lot of money at relatively high rates of interest, corresponding to the high profits obtainable by business men. But this highly profitable business involves a fall in the value of the gilt-edged securities in which they hold a considerable part of their assets. In a trade slump, less is lent, and at relatively low rates of interest; but the banks are largely compensated by the rise in the value of their securities. The banker is an adept at having matters both ways—so much so that he has become almost independent in many of his operations of the profit motive. This is not at all a bad thing for the community; for it means that joint-stock banking has reached a stage of development at which it is admirably suited for control by the State.

The joint-stock banks, even to-day, are probably actuated in their financial policy, less by the quest of maximum profit than by their belief in certain principles of 'sound finance'. Their shareholders have practically no control over their operations; and they are secure of stable profits on so high a level that they need not bother to get more. Indeed, the huge sums spent of late years on bank premises seem to be, in part, the result of an attempt to get rid of surplus profits which it would be, in the eyes of bank directors, mere waste to hand over to the shareholders. Moreover, the payment of too high dividends might make the banks more unpopular than they are, and add force to the demand for State control or socialisation.

The principles of 'sound finance', as understood by the banking world, are based first on the restriction of the total amount of credit within safe limits, and secondly on the maintenance of a high degree of 'liquidity' in banking resources. The former leads to a ready acceptance, on the whole, of the Bank of England's leadership in determining the volume of credit. The latter leads to certain forms of careful discrimination among applicants for advances. For the joint-stock banks consider carefully not merely the total amount of their lendings, but also the forms which these lendings are to take, the periods over which the money lent is likely to be locked up, and the ease with which it can be recovered at need in order to meet a change in the monetary situation. More than any other banking system in the world, the British system is based on keeping bank resources in the most



liquid possible form, and on an insistence that the distinction between capital and credit shall be clearly recognised, and that bank advances shall not be used to finance developments which ought to be met by the permanent sinking of new capital, or at least by long-term borrowings drawn from the new capital market, and not from the bankers' supply of business credit.

The banks are, as we have seen, the chief suppliers of credit, as distinct from capital, to all sections of the business world. They lend money to manufacturers and traders, in order to carry them over the period of their business turnover, or to enable them to expand their scale of operations. They, as well as the specialised discount houses, discount trade bills, and thus enable the seller to get his money—at a price—before the buyer is in a position to pay it. And, in addition to this, they supply to the specialised bill brokers and to Stock Exchange speculators the bulk of the resources with which they carry on their respective operations.

These loans are not all made on the same terms. Some customers are required to deposit full security—in the form of investments or guarantees—for the amount advanced, while others receive advances on their personal or corporate credit, or are allowed on this footing additional advances. Some loans are for a stated period, which may be long or short, while others are 'at call', which means that the bank may at any time demand its money back without notice. Naturally money at call secures a lower rate of interest than money lent for a period of time; for it may be a serious disadvantage to the borrower to have to pay it back suddenly. It is, on the other hand, an advantage to the banks to keep a proportion of their loans in this highly 'liquid' form; for by this means they retain their power rapidly to adapt the total volume of their loans to changing monetary conditions. The banks are therefore prepared to lend out considerable sums at a relatively low rate of interest on these terms.

Loans repayable at call or at very short notice are made usually, not to manufacturers or merchants, but to dealers in trade bills and to speculators on the Stock Exchange. If the joint-stock banks suddenly call in loans of this type to a large amount, the effect is felt directly, not by industrialists, but by these classes of borrowers. The bill brokers will be driven to borrow from the Bank of England, which will charge them a higher rate,

the wherewithal to pay back the sums demanded by the joint-stock banks. The brokers will accordingly make a loss, or at any rate a reduced profit, and will only be prepared to discount fresh bills at a higher rate. This will react on the supply of trade credits, by discouraging those who can wait for their money till their bills mature from discounting them in advance under disadvantageous conditions. It will thus tend to slow down the pace of business.

The joint-stock banks, however, if they desire to restrict the volume of their credits, will not confine themselves to gathering in their 'call' money, and thus strengthening their cash reserves. They will also scrutinise more carefully applications from their industrial and commercial customers for fresh advances, or for the renewal of old ones. For, when Bank rate rises, the joint-stock banks normally lend less not merely because less is demanded at the higher interest, but also because they definitely refuse to give their customers as much credit as before. They refuse borrowers who are prepared to pay the higher rates. It is commonly difficult, in times of financial stringency, to call in loans already made to productive and commercial enterprises; for the ability of these enterprises to repay their borrowings is likely to be affected by the slump. They cannot collect promptly what others owe them, and therefore they cannot promptly repay the bank. This is the well-known problem of 'frozen credits', which arises in some degree in every trade depression, and is likely to be most serious when the banks, during the preceding boom, have allowed their lendings to be used largely to take the place of capital, or to be applied to the refloating or recapitalisation of businesses at boom prices. This situation reacts seriously on the willingness of the banks to lend to new applicants or for new business; for, unable to call in outstanding loans, they take the course of restricting new ones in a greater degree. The effect is often to exaggerate the slump, by withholding necessary advances from fully desirable forms of enterprise. Moreover, while at the outset the banks call in their money which is repayable at the shortest notice, and thus embarrass the bill brokers and stock speculators, there is a marked tendency, when boom has passed through crisis into slump, and business enterprise has been thoroughly discouraged, for bank resources to find their way back, not into productive industry but rather into Stock

Exchange speculations, which have, for the banks, the advantage of liquidity, and are apt, for their customers, to offer the best chance of windfall profits when productive industry in general is having a hard struggle to make both ends meet.

The chief count in the indictment of the joint-stock banking system, as it now exists, is that it causes money to flow in directions which are not the most desirable from the social point of view. It gives, from the standpoint of the community, an undue preference to 'liquidity' in the use of its resources. The financing of transactions in commercial bills of exchange is, indeed, a most necessary banking service. But liquidity, which is, from the bankers' standpoint, the great advantage of these transactions, is found also in the financing of speculative operations on the Stock Exchange. The Stock Exchange is, no doubt, up to a point a useful institution; for it is of great value to the investor to be sure always of an immediate market for almost any reputable investment, in case he wants to turn it into cash. But this service would be performed far better if it were not tangled up with purely speculative activities carried on both by stock jobbers and by the general public through the agency of the Stock Exchange. Present banking practice is objectionable because it tends, in both good times and bad, to find credit more readily for the financing of pure speculation than for the needs of productive industry. Here, then, is one field in which State control of the direction of credit through the joint-stock banks can be put to good social use.

Moreover, in the credits which are granted to productive enterprise, the joint-stock banks are inclined to give a preference to those involving the shortest period of turnover. Long-term credits are hard to get from the banks, except by enterprises to which size and influence assure a privileged position. The policy of the British banks differs in this respect markedly from that of the banks in most other highly industrialised countries. Foreign banks—in Germany and America, for example—not only give long-term credits more readily, but also play a larger part in the capitalisation of new and expanding industrial enterprise. British joint-stock banks, save when they are acting as underwriters, seldom invest in new productive enterprises, whereas German banks do this to a very great extent.

This difference is mainly due to two historical causes. In

the first place, capital has been relatively abundant hitherto in Great Britain, and it has been possible for new enterprises to get all the capital—as distinct from credit—they have needed directly from the capital market, whereas in Germany new capital has been relatively scarce, and the banks have accordingly nursed new issues up to the point at which it has become possible to unload them on the investing public. And, in America, the size of the country, and the wide diffusion of industrial enterprise in its various regions, have led to a decentralised system of industrial finance and to the absence of a single capital market strong enough to supply all legitimate claims for new capital without calling on the banker to assume a share in the initial adventure. This means, of course, that German and American bankers assume large risks which the British banker avoids, because they are assumed here by the private investor or by other specialised agencies.

The existence of these specialised agencies is the second cause of the difference. There exists in London—so long the chief capital market of the world—a large body of financial houses which specialise in the underwriting of new capital issues, both domestic and foreign, and, in case of need, ‘nurse’ these issues in the same way as the banks nurse them in other countries.

In the preceding chapter, reasons were given for holding that, in the future, this method of financing new business enterprise is likely to break down. But it would be a mistake to throw the burden of financing it upon the joint-stock banks. The creation of a National Investment Board, and not a change in banking practice, is the answer to this part of the problem.

The case is quite different when we consider the provision, not of new capital, but of long-term credits. The distinction, of course, is not always easy to make; but it turns broadly on the question whether the additional resources demanded will be needed in the business concerned permanently, or only for a specified period. If they will be needed permanently, the demand should be met out of the funds available for new capital; if only for a period, the need is rather for a form of extended credit. Thus, if a manufacturer wants to put up a fresh factory for the lasting expansion of his business, he needs more capital; if he wants to accept a contract for the execution of some big engineering work on deferred payment terms, his need is for extended credit.

At present the joint-stock banks do not readily finance forms of productive enterprise which have to work on terms of long deferred payment. This function is fulfilled in part by businesses out of their own capital, in part by specialised agencies organised by the heads of great business enterprises as finance corporations and the like, and in part by the Government, through the Trade Facilities scheme. A special institution, the British Trade Corporation, was also set up with this object at the end of the War, but has achieved little. There is a clear need for further provision, in both industry and agriculture; and there seems to be no good reason why the work should not be undertaken largely by the banks, rather than by fresh specialised agencies. For, as the experience of the British Trade Corporation has shown, specialised bodies of this sort can hardly help so locking up their resources at an early stage as to become useless for financing further enterprises. What is needed is evidently the diversion of a part of the credit resources now at the disposal of the banks to this essential use. In other words, the granting of long-term credits ought, in the main, to be in the hands of the agencies which conduct ordinary deposit banking.

To the trading section of the community, a joint-stock bank may appear mainly as an agency for the supply of credit; but to the ordinary member of the public it is primarily a place of deposit. The ordinary bank customer does not normally borrow from the bank; he keeps his balance there, and draws cheques on it as he needs to make payments. On this function as a place of deposit the other functions of the joint-stock banks depend. Their own capital forms but an insignificant part of their resources; they carry on their business mainly with their depositors' money. Their power to lend is based on the fact that, even if each individual is constantly drawing out and replacing his balance, there is at every moment in their hands a large aggregate of deposited resources which they know will not be drawn out by its owners. The existence of this sum enables the bank to 'create' credit, by lending money which they do not own. As we have seen, they do not regulate the amount of their loans by the amount of their deposits; but unless they had the deposits they could make only an insignificant fraction of the loans they now make to their customers.

Every loan so made, even if it is based on a real deposit,

increases the current purchasing power, though not necessarily the actual purchases, of the community. For the depositor does not forgo his right to use his money when the bank, in fact, lends it to someone else. Bank credits are extra purchasing power pumped into the business world. They are in effect 'new money' supplementing the actual incomes which make up the real resources of the community. What, then, are their effects?

There is a familiar theory, known as the 'quantity theory of money', which lays down in broad terms that the level of prices depends on the respective quantities of money and commodities in circulation. Leave the quantity of goods the same, and double the quantity of money, and the level of prices will be doubled. Double the goods, without changing the quantity of money, and prices will be halved. This sounds like a truism, until one attempts to apply it. It is necessary, first of all, to introduce the reservation, 'other things being equal'. For the statement is clearly not true unless the 'velocity of circulation' is taken as fixed. If money were to change hands twice as fast as before, it would clearly be doing double the work, and this would have the same result as if there were twice as much of it. With this and certain minor reservations, the quantity theory of money is usually accepted as a truism by modern economic writers.

But what is the 'money' of which the quantity, in relation to that of commodities, determines price? Is it simply currency—cash and bank-notes? Or does it include all substitutes for currency which are actually used in the financing of economic transactions? Does it include bank credits? If the theory is to have any meaning under modern conditions, it must include them; for most business transactions of any size are settled not in currency, but by the passing of cheques or bills. The increase of payments made in this form has clearly quite as much effect on prices as any increase in the quantity of currency. Indeed, as far as Great Britain is concerned, it is evident that, during the War, the increase of bank credits preceded and involved the increase in the quantity of Treasury notes. The greater supply of currency had to be provided because it was needed in face of the rise in prices caused by the increase in 'bank money'.

In any scheme, therefore, for the more liberal granting of credits to industry, account must be taken of its possible effects upon the level of prices. It is true that the amount of credit

cannot be greatly increased without creating the need for more currency; but the thing that really matters, and determines the situation, is the amount of credit. This is half recognised in the recent Act under which the Treasury note issue has been re-organised in the hands of the Bank of England; for the discretionary power left to the Bank, in agreement with the Treasury, to issue an additional supply of notes is evidently based on the recognition that, if expanding industry needs more credit to finance it, this will involve as well an increased emission of currency, even if the price level remains unchanged.

But will prices remain unchanged? Only if the effect of the increased credit is a proportionate increase in the quantity of commodities, or rather of transactions. If transactions and 'money' are increased in the same proportions, there is no inflation, even if credit is issued far more freely by the banks. But if transactions increase less than 'money', prices will tend to rise; and if they increase more, prices will tend to fall.

At present, obviously, the amount of credit issued does serve to finance the transactions which actually take place. The question is whether an increase in it would rapidly cause an equivalent increase in production. The critics of present banking policy hold that it would, and that the Bank of England, with the consent of the Treasury, is therefore partly responsible for the present industrial depression. The bankers, except Mr. McKenna, who has steadily taken an independent line, hold that there would not be a proportionate increase in production, and that accordingly prices would tend to rise. A more liberal issue of credit, they hold, would be an act of inflation, and would produce the evil consequences associated with inflation.

The position is, of course, greatly complicated by Great Britain's return to a gold standard. Before this took place, a rise in internal price would only have involved a depreciation in the rates of foreign exchange. The paper pound, divorced from gold, would merely have been worth less in dollars and other foreign currencies. But now that the pound has again a fixed gold value, and gold can be had for export, the foreign exchanges can only vary within narrow limits between Great Britain and other gold standard countries which allow gold to be freely exported. If, then, our internal price level rises, so that a pound will buy less goods here, clearly it will pay to take or send gold out of the

country to other markets in which it retains a higher purchasing power. Under these circumstances, Great Britain would lose her gold, and would have to take steps to get it back if she wished to maintain her position in world trade, and as a world financial centre. But the only effective step that she could take would be to raise interest rates here, in order to attract foreign gold; and this would involve a restriction in the amount of credit issued—a measure of deflation such as we passed through in the course of our return to the gold standard.

It is now scarcely profitable to discuss whether we were wise to return to the gold standard or not. We have done it—in my view, if not wrongly altogether, at any rate in the wrong way—and the case for price stability and stability of international monetary conditions is so strong that no Government is likely at present to reverse what has been done. A policy of inflation, involving a sharp rise of internal prices, is simply not practical politics. A Labour Government is no more likely than a Conservative Government to embark upon it.

It does not, however, follow that a more liberal issue of bank credit is impossible. For, if this can be so directed as to increase production to a corresponding extent, it need result in no rise in prices and no disturbance in the rates of foreign exchange or the movements of bullion. Great Britain has at present a great mass of productive capacity—materials, plant, and labour—that is not being used. The business of a Labour Government, as we have seen, is to secure that it shall be used. This involves the right direction of the available capital into industrial development; and it also involves both the right direction of bank credits and an increase in their amount.

This policy of increasing bank credits step by step with the increase in the utilisation of our productive resources will need to be carried through with the greatest care, in order to ensure that the new credit flows where it is needed, and is not used to finance either business enterprises of little social importance or undesirable forms of speculation. It will require the co-operation of the Bank of England and the joint-stock banks, and the control of both by the State in close conjunction with the Board of National Investment.

What, then, should a Labour Government do with the banks? It should, in the first place, simply socialise the Bank of England,



and place it, subject to the final control of policy by the Government through the Treasury, under an expert commission including industrial as well as banking specialists, and working in close conjunction with the Board of National Investment. The shareholders could either be given ordinary Government stock in exchange for their shares, or allowed to retain their nominal ownership of the capital, with interest at the present stabilised rate, but without any powers of control. The essential change would be, not the change of ownership, but the change of control. The new governing body of the Bank would be, not an ultimate dictator of policy, but an executive body, carrying out, in matters of high policy, the will of the Government, but within this condition left to manage affairs in its own way.

It should be observed that the policy here proposed is not identical with that recently put forward by the Labour Party in *Labour and the Nation*. It is there proposed that the Bank of England should be placed under the control of "a public Corporation containing representatives of such essential factors in the community as the Treasury, Board of Trade, Industry, Labour, and the Co-operative Movement". To this suggestion I am altogether opposed. It does not greatly matter whether the reformed Bank of England is called a 'public Corporation' or a department of State; and probably the balance of advantage lies in giving it the former status, as the Labour Party has proposed. But it does matter very much that its future government shall not be placed in the hands of any body representing the various interests affected by its conduct. The administration of a bank is the affair of experts who give their whole time to mastering the intricacies of banking policy, and not of representatives who will inevitably try to twist its policy in accordance with the wishes of the interests they represent. Let the nationalised Bank of England have by all means an advisory council or committee based on the representative principle; but let us avoid the enthroning of representatives, who would be certain to fall out among themselves, in the seats of administration. It will be for the State itself, through the Government and subject to the final authority of Parliament, to control the larger issues of banking policy: and what the State needs in order to ensure that its wishes are carried out in the day-to-day working of the Bank is an expert body of responsible administrators, and not a group of

representatives who will desire and claim to direct policy as well as administration.

Socialisation of the Bank of England would give the Government a great deal of power over the amount of credit, but very little over its direction. Moreover, even over amount its power would be mainly negative. It could prevent more credit than it thought good from being issued; but it could not secure the issue of as much as it thought good. For the Bank of England's power over the other banks enables it to prescribe a maximum, but not a minimum. Both for the control of the volume of credit and for the guidance of its direction, full authority over the joint-stock banks is essential. These could be dealt with in the same way as the Bank of England. Each joint-stock bank could be brought under national control, the shareholders retaining their nominal ownership of the capital, but with interest for the future at a fixed rate, and without any vote or control in its affairs. Each bank could be placed under the management of an expert commission, but at the same time linked up with the socialised Bank of England, to which the other banks would become subordinate. The governors of the reformed Bank of England would thus hold a status corresponding to that of the Board of National Investment or the Fuel and Power Commission, while the governors of the joint-stock banks would correspond to the various subordinate Boards and Commissions described in an earlier chapter.

It is not suggested that the socialised joint-stock banks should be amalgamated either into a single bank or with the Bank of England. At any rate for the present, it is far better to leave their structure unaltered, and to take over the actual units of capitalist organisation. This course involves the minimum of dislocation, and greatly simplifies the problem of future management. Probably it will be desirable in most cases to take over the existing bank officials, up to the very highest. They know their jobs, and will do them more efficiently than anyone else. But they will be carrying out a different policy, prescribed to them by the Government through the reorganised Bank of England.

The specialised finance houses—those concerned with the acceptance and discounting of bills, the flotation and underwriting of new capital issues, and similar financial operations—the incoming Labour Government will be wise to leave for the

time being untouched. It would, in fact, if the financial policy outlined in this book were carried into effect, gain a large measure of control over them by controlling on the one hand the flow of bank credit, and on the other the direction of new capital issues. It would be, through the National Investment Board and the joint-stock banks, in direct competition with them in many branches of their business; for it would be itself floating, as well as licensing, new issues of capital, discounting and accepting bills, and performing, in some degree, most sorts of financial operation. It would be able at any time, as might seem expedient, to socialise any particular finance house, and link it up definitely with the new public system. But it would be the wisest course to do this gradually, and, for the present, to rest content with taking over control of the Bank of England and the joint-stock banks.

The policy of the Labour Government, acting through these reorganised institutions, should be, first, the gradual expansion of credit in order to finance increased production, and secondly, the diversion of credit from speculative to productive activity. The difficulty of this policy lies, of course, in the fact that, as credits are required for future production, the purchasing power generated by them makes its appearance in the market before the goods which are produced with its aid. There is thus a danger that prices may rise, and international complications be caused, because of this 'time-lag' in production. The bridging of this gap demands care, but presents no insuperable difficulty. It will be necessary to begin mainly by diverting more of the existing volume of credit from speculation in existing shares to the stimulation of new production, and only when this has been done to embark on any large scheme for increasing the total supply of credit. By this means production could be increased before the new supply of purchasing power made its appearance in the market, and inflation could thereby be avoided.

I have tried in this chapter to guard against the exaggerated hopes which many socialists have based on the manipulation of the currency. If the more liberal emission of credit were by itself the key to abounding prosperity, the capitalists would have found this out for themselves long ago. If the bankers were really engaged in strangling the industrialists, and were the causes of industrial depression, the captains of productive in-

dustry would long ago have had something to say about it, and have swept out of existence a banking system which led to these results. If there were some quite simple 'flaw in the price system' which could be removed by a mere change of banking policy, I very much doubt if it would have remained so long unknown. To deny these theories is not, of course, to suggest that present banking policy is sound, but only that, on the whole, it does quite well suit the present rich classes—industrialists as well as financiers. The industrialist may often grumble that he is not given enough credit by the banks; but he commonly means that he would like more credit for himself, and not more for everyone else as well. He does not usually want inflation or any fundamental change in banking policy.

It is further to be noted that the complaints come, as a rule, more from the small than from the big industrialists. It is beyond question that present banking policy finances the big business at the expense of the small. The amalgamation of the joint-stock banks into a few huge nation-wide concerns has destroyed much of the old readiness with which the local banker made advances without deposits of security to customers whose status and capacity he knew. Local bank managers are, doubtless, still allowed some discretion in this respect; but the tendency of centralisation in private hands has been to make the security offered, rather than the merit of the enterprise or the capacity of its undertaker, the dominant consideration in the giving or withholding of advances. This is one of the factors making for misdirection of credit, and the socialised banking service will have, at the cost of incurring an additional risk, to pay more regard to the merits of the enterprise and less to the question of security. State banking will not be quite so safe as joint-stock banking has become; but there is fortunately an ample margin of reasonable safety within which additional risks can be incurred.

Present-day banking tends to favour the big business not only because it goes more by security than by personality, but also because bankers and industrialists are not two clearly distinct social classes, but closely interconnected. The same men are often directors of banks, insurance companies, and productive enterprises, and get a special pull in the financing of their productive undertakings from their position in the financial world. State banking, in the hands of a Labour Government,

will not be amenable to influences of this sort. It will aim at giving the small producer or trader an equal chance with the big one, judging their respective claims impartially in the light of the public interest. The big industrialists, who have been used to wangling the credit machine in their own private interest, will be put firmly in their place.

No one, however, must expect miracles from the socialisation of banking. It will save the State a good deal of the money it now pays away for temporary financial accommodation that could be secured without charge through the socialisation of deposit banking. It will help materially in the restoration of depressed industries to health, and it will give the State, through the power to give or withhold credits, a tremendous power over all forms of business that are left in private hands. A nationally controlled banking service is an indispensable complement to any policy of national development of economic resources. But it is secondary to a positive policy of development. It can help, but it cannot create. In particular, a Labour Government will have to be on its guard against cranks who mistake the function of banking in this respect, and seek to elevate it from a secondary to a primary rôle. Capitalist banking is excellent at extracting profits. It is a very powerful influence in fostering one line of economic development, and in checking another. But it is not creative. Its function is to supplement and facilitate the productive operations on which the life of the community depends. It will serve the Labour Government as an invaluable auxiliary to the Board of National Investment. But the development of production on the one hand, and the right distribution of income on the other, are the essential foundations of socialist economic policy. Banking must be socialised, because in private hands it can be used to counteract this policy, and because its right direction is an indispensable adjunct to it; but not even the socialisation of the Bank of England and the joint-stock banks can make the banking system more than a subsidiary instrument of national progress.

## CHAPTER XII

### AGRICULTURE AND THE LAND

Political parties prolific in agricultural policies—The farmer as an instinctive protectionist—But no party dare give him protection—Why a tariff on foodstuffs is impossible—The economics of British wheat-growing—Reactions of higher prices on rents—Forms of protection without a tariff—Proposals to stabilise prices by the control of imports—Bulk purchase schemes considered and approved—But will they benefit the farmer?—They are more likely to lower prices than to raise them—Agricultural production can be increased only if more can be produced at an economic cost—It is therefore necessary to concentrate on improving the efficiency of production and marketing of home produce—Wheat the least hopeful field for experiment—Imports of foodstuffs analysed—Cost of imported meat, butter, cheese, eggs, vegetables, and milk—We could produce far more of these at home—The case for an extension of small holdings for market-gardening, poultry-keeping, dairying, etc.—Access to the land—The British land system and its breakdown—The case for land nationalisation—The method proposed—Urban land values should be taxed—And the revenue given to the Local Authorities—Sitting tenants should usually be left undisturbed—The State directly, as well as the County Councils, to provide small holdings—A State Agricultural Commission—The provision of capital for the farmer—And of long-term credit—The creation of co-operative agencies for short-term credit—A National Agricultural Bank—The reasons for the slow growth of agricultural co-operation—In what forms it can best be developed—Co-operative bacon factories and their problems—The function of co-operation in reducing swollen marketing costs—Need for State action to stimulate and co-ordinate local co-operative effort—Progress bound to be gradual—Immediate steps summarised—The position of the agricultural labourer—Effect of Family Allowances on his standard of life—Agricultural wages and their regulation—Small holdings and the labourer—Do the unemployed want to go back to the land?—How far should Britain feed herself?—The idea of self-sufficiency abroad—But the position of our export trades does indicate the need for greater food production at home.

ALL political parties are prolific in schemes for the restoration of British agriculture. Conservative land policies, Liberal land

policies, Labour land policies jostle one another in competition for the votes of the rural electorate. All parties recognise that, in the near future, the balance of political power may rest upon the country constituencies, and Labour in especial knows that it will be difficult for it to establish itself securely in office unless it can break down the almost solid opposition of the countryside. There is reason enough, in the political situation, for this activity in drafting plans for rural preservation. And yet this is by no means the only reason why parties are so busy about it. For every party does truly recognise that the agricultural problem is among the most serious Great Britain has to face.

Each party has its scheme; but no party is in the least likely to give the British farmers the concessions that most of them would really like. The farmers, as a class, are instinctive protectionists, to-day as much as they were a hundred years ago; but no one will even offer them protection for their principal products. For it is abundantly clear that any party venturing to offer this would be committing political suicide. Mr. Baldwin came near to doing this in 1923, even without any explicit promises to the farmers: the party that really promised to introduce agricultural protection would make a speedy exit. The townsmen, who form the great majority of the electorate, simply would not hear of it. And, while it is well worth while to woo country votes, it is by no means worth winning them at the cost of losing the towns.

The industrial population will have none of agricultural protection because it believes the result would be a sharp increase in the price of food. The British farmer, they argue, can be put in a better position by a tariff on imported foodstuffs only if its effect is to raise the prices charged for home products. The big loaf and the little loaf have figured so long in political controversy that this point has sunk well into the minds of the industrial electorate.

A rise in the prices of the primary foodstuffs would be obviously calamitous for a Labour Government engaged in an attempt to raise the standard of life. For, in the first place, it would not be easy, under present conditions, to secure a rise in wages even corresponding to the increased cost of living, and secondly, even if this could be done, the cost of any improvement in the lot of the people would obviously be substantially increased. A rise in the standard of living involves primarily,

among the poorest sections of the community, a greater consumption of foodstuffs. This would have, under the existing conditions, to be met mainly by an addition to the quantity imported. The tariff would clearly be added to the price of these imports, though it may be held that, as the State would collect the added sum in indirect taxation, it could put matters right by adding it to the sum redistributed in the form of family allowances, social insurance, and other social services. The object of the tariff, however, would be to increase home production; and evidently the price of home-grown produce would tend to rise by an amount not far short of that of the duties imposed. The extra price would thus be substantially more than the amount of the tax, and this excess would increase in proportion to the success of the policy in stimulating additional production at home.

The British farmer at present sells most of his products at prices dictated by world-competition. This is most completely true of wheat; but it is largely true of meat also. For while English meat commands a higher price than its imported competitors, its price is nevertheless influenced by their competition. And the same is true of butter, eggs, fruit, cheese, poultry, and, in short, of the great mass of British agricultural products. In all these cases, a rise in the price of the imported commodity would tend to raise the price of the home product as well, though not necessarily in the same proportions.

For, whatever may be the admixture of truth and falsehood in the 'law of diminishing returns' as it is stated in the economic textbooks, the British farmer, over a short period, certainly produces under the conditions which it assumes as typical. An increase in the quantity of wheat grown at home would be likely, at any rate for some time to come, to involve production under conditions of increasing cost, either because less productive land had been brought under cultivation, or because more intensive methods, involving a more costly use of labour, had been adopted. The cost price of wheat raised at both the extensive and the intensive margin would thus tend to rise, and this would involve a general rise in home-grown wheat prices. The same conclusion seems to hold good, though not in all cases, in the same degree, of other agricultural products now exposed to foreign competition. In the short run at any rate, protection



would raise their prices. Accordingly, the land now under cultivation would tend to show an increased monetary return. New land would be brought under cultivation; and old land would be either farmed more intensively for the same kinds of produce as now, or converted to the production of other commodities offering a higher net return in money.

Of course, in the long run, the farmer, unless he owned his own land, would not be able to retain all this additional profit. To the extent to which the margins of cultivation came to be pushed further forward, rents on the superior lands and on their more intensive use would tend to rise, and the landlord would thus claim his share in the increased monetary harvest. So would the labourer, with more doubtful but not negligible prospects of success; for agricultural protection would certainly strengthen the demand for a higher legal minimum wage for the workers on the land. These two sets of claimants would not, however, be able to absorb all the increase; for, if they did, they would in the process destroy it, and nullify the effects of protection in increasing cultivation at home. Farmer, landlord, and labourer would share the increase, in proportions decided by their bargaining strength, and by the attitude of the State towards their respective claims.

This discussion, however, remains so far purely academic, because no protective measure likely to produce these results stands the faintest chance of being adopted. In order to have a chance of success, the agricultural protectionists must show reasons for believing that the measures they propose will not in fact raise prices to the British consumer. This they sometimes attempt to do, either generally or in relation to some particular product, by arguing that protection would, in some mysterious way, make the British farmer produce more efficiently and at lower cost, and so enable the margin of cultivation to be pushed forward without any increase in prices. Alternatively, or in addition, it is suggested that there is room for great economies in the marketing of wheat, and that under protection the farmer would get more for his product, and the consumer pay no more than now, because the necessary saving could be effected at the middleman's expense. What is not explained is why, if these desirable reforms would be achieved under protection, they cannot be achieved without it; for no reason is given for holding that

protection would make either of them easier to effect than it is to-day. There is room both for greater efficiency in British farming and for a substantial economy in the marketing of farm produce; but a tariff is far less likely to help forward than to hinder these most necessary changes.

Protection, then, in the form of a tariff, can be simply ruled out as politically impracticable, not only for wheat, but for all important foodstuffs. It is no more possible for meat, or butter, or eggs, than for cereals. The British electorate simply will not have it, because it sees, quite rightly, that the object of it would be to raise prices.

There are, however, other ways of protecting the home producer besides a tariff; and certain of these deserve fuller consideration. It is sometimes urged that, in order to induce an increase in home-grown foodstuffs, there is need, not for higher prices but for prices more stable and assured. The average price of, say, wheat over a period of years, it is argued, is already high enough to make wheat-growing pay on a larger scale than that on which it is now practised, if only the short-term fluctuations of prices can be reduced, and the average price made to apply more evenly over the whole period. The farmer's greatest trouble to-day, it is argued, is not the lowness of prices, but their uncertainty, which makes farming a highly speculative business, and thus discourages men who are not in a position to take big risks. In addition to the vagaries of the seasons at home, the farmer has now to contend with the price-uncertainty caused by their vagaries in all wheat-exporting countries, and the reduplicated risk is enough to deter him from growing wheat under any save the most favourable conditions. The same considerations apply to other crops, but not in anything like the same degree to pasture farming.

There is undoubtedly some force in this argument, at least in relation to the production of cereals. Greater stability in wheat prices would help the British grower even if the average level of prices remained unchanged. It would cause rather more to be grown at home, though certainly not so much more as those who most commonly use the argument are inclined to suggest. At least during the last few years, the farmer's complaint has been of low prices rather than of price fluctuations.

If the object is to stabilise the price of wheat, or of any other

agricultural commodity, rather than to raise it, the obvious instrument is not a protective tariff, but a system of control. If we desire to protect the British producer against fluctuations due to the movements of world prices, we must do this by regulating the price at which agricultural imports are to be sold in the home market, or, what comes to the same thing in effect, by regulating both quantity and price. The proposal usually put forward with this object is based largely on war-time methods of food control. Instead of allowing, say, wheat to be freely imported by private agencies, it is suggested that the State should establish a Wheat Control Board, which would become the sole importer. This body would make forward contracts for the bulk purchase of wheat in the exporting countries, preferably with Government or co-operative agencies able to deal on a large scale. It would then place the foreign wheat on the British market in regulated quantities and at a controlled price. The price could be fixed at any level desired, and would in effect dictate the quantity of the British production—subject, of course, to crop fluctuations—for, the higher the price, the more wheat British farmers would set out to grow. The Control Board would so regulate the foreign purchases as to make up the quantity required for home consumption over and above the total of the British crop, and would meet crop fluctuations by storing part of the normal purchases or by making additional purchases to meet a shortage. It could either leave the British farmer to market his own product, which would sell eventually at prices regulated in relation to the fixed prices for the imported commodity; or it could buy the entire British crop at fixed prices, and thus become the only wholesaler of wheat to millers and other intermediate consumers.

This plan, most commonly worked out in terms of wheat, could evidently be applied, with necessary changes of detail, to other products also. Instead of leaving the importation of any standardised bulk commodity unregulated, the State could bring it under control by some sort of Board or Commission like the war-time Commissions for wheat and sugar and other imports. These Commissions could then purchase in bulk abroad, and retail at home at prices whose level would broadly determine the amount to be produced in Great Britain.

There are strong reasons for adopting this method of bulk

purchase in the case of a number of our principal imports. But its effect is more likely to be a lowering of prices to the consumer than a bounty to British agriculture. Bulk purchase would, in all probability, allow this country, on the whole, to buy its imports more cheaply than it buys them now. But, if this were done, it is certain that the British consumer would insist on getting the benefit of the economy. He would be no more disposed to allow the Wheat Control Board to sell its wheat at a profit<sup>1</sup> in order to keep up prices in the interests of the British grower, than he is to allow the same result to be achieved by means of a protective tariff. The farmer might, therefore, if the question were envisaged solely in terms of the prices of agricultural produce, find himself, not benefited by the adoption of a control scheme, but actually exposed to more effective foreign competition than at present.

He might, indeed, be helped in some degree if the Control Board, by taking the distribution of the home crop into its own hands, effected considerable economies in this sphere, and so reduced the margin between producers' and consumers' prices. For, while the public would insist on sharing in the fruits of these economies, a share would also, in all probability, go to the producers. This would not cause universal rejoicing among British farmers; for a good many of the larger farmers are dealers as well, and make a substantial part of their profit out of the unduly wide margin between producers' and consumers' prices. But it would help the smaller men, and, indirectly, the main body of the labourers. At the least, it should offset, from the producers' point of view, the results of the more effective importation of foreign wheat under control.

Enough has been said to indicate that, while a Wheat Commission or a Meat Commission, or a Butter and Cheese Commission for the control of imports may be thoroughly desirable in itself, and for the most important purpose of reducing the cost of living to the British consumer, it is not in the least likely to result in any considerable increase in the amount of food-stuffs produced at home. It could have this result, if the British

<sup>1</sup> This, of course, does not imply that the Control Board would be unable to balance a profit at one time against a loss at another. It could be used to steady prices, and could make temporary profits in doing so. My point is that it could not be used to raise the average price level.

consumer would allow prices to be raised at his expense; but as he will certainly insist on getting his food supply as cheaply as it can be got, from whatever source, the British farmer stands little chance of retaining the main benefit of any economies that may be achieved.

It is, in fact, necessary to realise, once and for all, that the product of British agriculture can be increased only if a larger quantity can be produced at home as cheaply as it can be brought from abroad. The British farmer has, indeed, succeeded in getting his industry subsidised by the State through the relief given to him from rates on agricultural land—a reform which, in the long run, will be effective chiefly in putting money into the landlord's pocket. But further subsidies he cannot expect, even for the naturalisation of new products such as sugar-beet, the existing experiment in that case having sickened most people thoroughly of the method. It is, indeed, conceivable that, at some future date, a rise in world agricultural prices may cause a rise here, and so compel the British consumer to pay more, and make home production profitable on a larger scale; but there is no sign of this at present, and it is, in any case, not a factor within the control of British policy.

We are driven back, then, upon the encouragement of better farming, the improvement of the conditions of land tenure and of the supply of capital and credit, the more effective organisation of marketing processes, and the development of a keener specialisation on those agricultural products which offer the best prospect of a good economic return. We have to face the fact that the land policies of all the political parties tend, on many points, to be very much alike, and, in general, to appeal very little to the agricultural community, just because there is no practicable way of achieving the sensational results of which 'Back to the Land' enthusiasts are apt to dream. This does not mean that nothing can be done to help agriculture and to increase agricultural production. It means that there is no panacea for the troubles of the rural community, and that we shall have to be satisfied with many small advances instead of one sensational reform.

Of all British agricultural products, wheat is the least hopeful for the reformer. The present tendency in British wheat-production, even if it is not towards a further shrinkage of the

area under cultivation, is certainly towards less intensive farming. Great Britain is not becoming prairie; but British farmers are learning to farm lands more lightly, and to lessen their costs of production by economies in the use of labour. The same acreage is tending, with these methods, to grow less wheat and to employ less men. And this is happening because the less intensive farming pays better, except on the very best soils. Possibly, by becoming less intensive, British wheat-production may in the long run increase, by spreading over an extended acreage. But, for the present, it is unsafe to hope for more than an extension of area sufficient to compensate for the decreased intensity of the cultivation.

Reformers who bemoan our dependence on imported foodstuffs are apt to pay undue attention to wheat. In 1928 we spent nearly £58,000,000 on imported wheat, and over £6,000,000 on imported meal and flour. This seems a huge sum; but it is only a portion of our total importation of foodstuffs. On imported food, drink, and tobacco together we spent in 1928 nearly £532,000,000. On imported meat alone we spent over £125,000,000, or nearly twice as much as on wheat and flour. Imported butter and cheese cost us over £67,000,000, eggs nearly £21,000,000, raw vegetables nearly £14,000,000, lard £7,500,000, apples £8,000,000, condensed milk over £5,000,000. All these are products which, equally with wheat, are capable of being produced in Great Britain, and on them we spend, in the aggregate, several times as much as we spend on wheat. It is not suggested, of course, that we can stop importing frozen meat from New Zealand or the Argentine, any more than we can stop importing wheat from Canada and Australia. But it is suggested that there is far more hope of expanding successfully the home production of many of these other products than of growing a largely increased quantity of our own wheat. For one thing, the home grower has in many of these products, including meat, a great advantage in the quality of his product, whereas in wheat the advantage is rather the other way. And, for another, dairying and market-gardening are, for a small country with a great urban population at the doors of its villages, far more hopeful lines of development than the cultivation of wheat. The expansion of British agriculture is likely to come through the development rather of those products in which the advantages of quality and

location are with the home producer than of such easily transported and non-perishable commodities as wheat.

For a Labour Government, therefore, it will be far more important to foster market-gardening, poultry-keeping, dairying, pig-breeding, and similar rural services, than to attempt the impossible task of expanding the acreage under wheat or the intensity of its cultivation. For ordinary arable cultivation, except on the best soils, the future is probably with extensive cultivation on large farms rather than with the intensive tillage of relatively small farms. The dairy farmer and the cattle-breeder will also probably tend to operate on an expanding scale, though in dairying at least there is room for the small man as well. But in market-gardening and poultry-keeping there is room for a big expansion in the intensive use of fairly small holdings, especially in the neighbourhood of towns, and the main aim of a Labour rural policy should be to encourage the growth of holdings designed for production of these types. The men who will develop such holdings will need ready access to land and capital on reasonable terms, facilities for credit, and help in marketing their produce on efficient lines; and help in these four forms it will be necessary to supply far more abundantly than they are forthcoming at present.

We have here four separate matters with which a Labour Government will have to deal. They are, however, closely connected. Access to land and access to capital are bound up together: capital and credit are not always easy to distinguish; and credit is intimately connected with marketing. It is therefore necessary, while bearing the four distinct points in mind, to deal with them to some extent together.

The existing land system in Great Britain is based upon certain assumptions which are rapidly ceasing to be true. Landed property is extraordinarily concentrated here—in sharp contrast with the systems of peasant ownership which prevail over the greater part of the world. Even where the farmer owns his holding, he has often bought it under extremely disadvantageous conditions, paying a price which has swept away his working capital and plunged him into debt which he has no means of clearing. Many farmers were virtually compelled to buy their holdings on these conditions at the end of the War; and those who bought at that time have, almost everywhere, been the

chief sufferers by the subsequent slump. Predominantly, however, Great Britain is still a country of big landlords and tenant farmers, cultivating holdings of every shape and size. The assumption underlying the system is that the landlord supplies not only the land, but also most of the fixed capital, in the form of permanent improvements required for working it, the tenant finding the circulating capital, and sharing, in varying proportions according to the type of farming, in the supply of fixed capital. The stock breeder, for example, has usually to find more capital of his own than the arable cultivator.

In fact, this assumption is more and more failing to correspond to realities. The landlord, partly through relative poverty but mainly because he finds it more profitable to invest his resources elsewhere, is less and less willing to supply the capital for permanent improvements which his tenant needs, and is more and more thrusting the supply of fixed as well as circulating capital upon the tenant. Modern legislation, from Disraeli's Agricultural Holdings Act of 1875 onwards, has been increasingly compelled to recognise this change, and to admit the tenant's right to compensation for permanent improvements at the end of his tenancy. But, even with this concession, the change presses hardly upon the farmer, who has usually not enough capital at his command to carry the additional burden, and at the same time to finance the period of turnover of his produce. This reacts on his ability to secure credit; for the resources that should be available for use as credit have to go in the supply of capital. This in turn reacts on his marketing; for it puts him in the hands of the dealer, who is often placed in a position to exact his own terms.

In these changed circumstances, the arguments which used to be employed in justification of the landlord system have largely ceased to apply; and the old trinity of landlord, tenant farmer, and labourer has become a most unholy trinity. The landlord cannot justify his existence if he becomes a mere exacter of economic rent; the tenant farmer, even with compensation for improvements, has neither sufficient incentive nor sufficient resources to make the best of the land; and the labourer both bears the larger share of the farmer's difficulties, and is denied the opportunity of setting up for himself as an independent producer.

Land nationalisation is therefore clearly desirable. There is a



strong case for the combination in the same hands of the ownership of the soil and the function of providing financial help in the form of fixed, and to some extent circulating, capital. The landlord no longer effectively combines these functions; and clearly there is no substitute for the landlord except the State. The rival idea of promoting a general extension of occupying ownership is clearly absurd; for it would involve the sinking by the farmer in the purchase of his land of the capital which he needs for its effective development.

A Labour Government, then, should socialise the land, including, of course, urban as well as rural land; for the appropriation by the community of the unearned increment of urban site values is clearly desirable. The form of socialisation in this case requires special discussion. As far as all land at present in occupying ownership is concerned, the simplest course seems to be that of leaving the owner undisturbed, subject to a valuation, based on present market values, at which the State would have the right to take over the land at any subsequent period. Any transfer of ownership would thereafter require the State's consent, and the land could be let or leased only with a similar consent. In the case of home-farms, dower-houses, and similar properties forming part of estates, but temporarily let to strangers, the State would have the option of leaving these in the hands of their owners on the same terms as occupied lands. Estates let on short leases by their owners could be treated in the same way. The breaking up of old family properties, as far as country houses and park-lands are concerned, is best left to the natural evolution of social classes, rather than precipitated as part of a scheme of socialisation. The bulk of the agricultural land belonging to estates of this type would, however, at once come under the socialisation scheme; and the whole body of ordinary tenant farmers—the most important section of the farming community—would, of course, become at once tenants of the State.

Whatever may be said in the abstract against the recognition of private property in land, it is clear that, in Great Britain, no distinction can fairly be drawn between land and other forms of property in respect of compensation. Land has so often changed hands as a form of property enjoying the same rights as others that any discrimination against its present owners in this respect would be manifestly unfair. The State, therefore, if it takes over

the land, will have to pay compensation for it, and to redress the inequalities of income arising from private ownership by other means. It has a perfect right to impose special taxation on urban site values; for these represent a special form of unearned increment due to social development. It has a right to tax royalties, or other windfall incomes arising from the ownership of land. But it cannot fairly confiscate land unless it also confiscates other forms of property to which the owners have no better title. The landowner has no absolute right to the land; but neither has the capitalist any absolute right to his capital. Both have the same prescriptive right to be treated on equal terms.

It is not, however, possible for the State to deal with land socialisation by the methods suggested in an earlier chapter for the great productive industries; for land is held mainly, not by joint-stock concerns, but by individual owners, and rent stands on a different footing from profits as a form of income. If the State were to offer to landowners an income corresponding to their present net rents, it would be making them a huge unnecessary present, even if it reserved the right to impose special taxation on this future income; for it would be giving them absolute security instead of a certain amount of risk, and it would be exempting them from all the conditions of service and expense on which they now hold their land, without taking anything away from the incomes now enjoyed, at least by implication, on these conditions. Nor is it possible merely to give the landowners a contingent claim to such rent, up to a certain amount, as the land may yield in future; for it is impossible to distinguish between the yield of land and the yield of improvements sunk in it.

There is, accordingly, no alternative to a valuation of the land as a preliminary to its socialisation. The object of this valuation will be to fix not site value—a task which has been shown to involve great difficulties—but the value of the property which the State proposes to acquire, including the buildings and other permanent improvements. On the basis of this valuation, the State could then issue to the owners of the land scheduled for acquisition Government bonds of equal capital value, but, of course, yielding a smaller gross income because of the more complete security and of the absence of the special charges and

duties now falling on the landowner. These bonds, it is suggested, should be special Land Bonds, and the interest due upon them should be charged against the rents received by the State from the socialised land, and not against the general revenue of the community. They should be subject to any future taxation specially levied by the State on land values.

The case of urban site values needs special treatment. The taxation of these figures in the Labour programme as an urgent measure. The proceeds of this taxation should, as we shall see in a later chapter, form an important part of the revenue of Local Authorities under a recognised system of local taxation. How would this position be affected by socialisation? It is here assumed that a measure for the taxation of urban site values will be introduced early in the life of the next Labour Government, whereas the full scheme of land socialisation would evidently need longer to prepare and would have to be deferred. Urban site values would thus have been taxed, and the revenue arising secured by the Local Authorities, before the land is socialised. The value at which the State would acquire urban land would thus be its value after full account had been taken of this taxation; and the Land Bonds issued to urban owners would represent only the diminished capital value thus reached.

Urban increment would, however, continue to accrue after socialisation, but the proceeds of it would, thereafter, pass to the State as the receiver of rent. The Local Authorities could be allowed to share in the future increment, as well as in that which has already accrued, by receiving, in the form of a grant-in-aid from the State, a sum equal to that which they would have received from special taxation of the land had it remained in private ownership.

The object of socialising the land is not, of course, to disturb sitting tenants, or to embark on any comprehensive scheme of State farming. Certain lands the State would presumably take into its own hands, notably for purposes of afforestation and reclamation; and on these lands it would find employment for a certain number of men to be specially trained for agricultural work. It would also probably develop experimental farms and agricultural research stations on a larger scale than at present, and equip agricultural colleges and training centres with lands more adequate to their needs. But in the main it would continue

to let out the land at a rent, leaving existing holders undisturbed wherever the land was being reasonably well farmed, unless a special piece of land was needed for some socially more desirable work of national development.

It would be necessary, for example, in order that agricultural production might be developed along the lines suggested earlier in this chapter, to make land far more readily available for relatively small holdings, especially in the neighbourhood of good urban markets. The County Councils, to which the provision of holdings of these types has hitherto been entrusted, have proved themselves in many cases quite unsympathetic to the claims of the small man; and it would be desirable, without depriving them of their powers, to provide in addition for the granting of land in small holdings directly by the State. This would involve a breaking up of some existing farms and some disturbance of sitting tenants; but, apart from this, the State would naturally aim at leaving present occupiers as far as possible in possession, and would seek to effect a more economic distribution of holdings by gradual means, as tenancies fell in. The State would require, indeed, powers to eject unsatisfactory tenants, who did not put valuable land to proper use; and it would have in its hands large powers of compulsory acquisition and disturbance. But its aims would be best achieved by making moderate use of these powers, and by seeking rather to improve the farming methods of present occupiers than to displace them by new men. The ownership of the land would give to the State, through the board of Agricultural Commissioners, a wide power of encouraging better farming, and of helping farmers to make better use of their land. It would also greatly facilitate both the breaking up of holdings into smaller units for market-gardening and similar activities, and—what is no less important—the concentration of arable and pasture holdings into bigger units for purposes of extensive agriculture on a larger scale.

This brings us naturally from the ownership of the land to the provision of the capital for working it. The State, as we have seen, has to take over the function, no longer effectively fulfilled by the landlord class as a whole, of supplying the tenant farmers—and also those occupying owners who are left in possession—with a considerable part of their working capital. This involves, in the first place, the direct sinking of capital in the land by the

State in the form of permanent improvements. It involves, secondly, the advancing to farmers of capital to enable them to purchase stock and implements, and to make improvements which are not incorporated when they are made with the land itself. The National Investment Board, in agreement with the Agricultural Commission, and subject, in the last resort, to the decision of the Government as a whole, would have to make provision for the flow into agriculture, in these forms, of a certain part of the annual supply of new capital. The surplus of rents received over and above interest payable on Land Bonds should not be used for this purpose, but rather for agricultural research and other purposes not directly reproductive. The sinking of capital in land is just as much a form of investment as its sinking in industry, and the necessary resources should come out of the funds available for capital development.

Capital and long-term credit are, in this case, closely bound up together; and it seems best that the Agricultural Commission should keep in its own hands, not only the sinking of new capital in agricultural improvements, but also the provision of long-term credits—by which are meant credits needed for a longer period than the normal turnover of rural production. Short-term credits, on the other hand, would probably be better managed by special Credit Agencies, formed on a co-operative basis for each convenient area, but working under a centralised control closely linked up both with the Agricultural Commission and with the national banking system. The best suggestion would seem to be the establishment of a National Agricultural Credit Bank, including representatives appointed by these two authorities, and having at its disposal sufficient resources, borrowed at fair interest from the socialised banks, to enable it to meet the reasonable needs of the agricultural community. Local Co-operative Credit Agencies, managed and controlled mainly by the farmers themselves, would draw their supplies of credit from the National Agricultural Bank, which would thus act as a rationing authority, with full powers of inspection and audit over the local bodies. This is not unlike the form of agricultural credit which has been developed under Government auspices, with a good deal of success, in India and certain other countries.

Naturally, the provision of capital and credit to the farmer would need to be closely co-ordinated, and the Agricultural

Bank would have to work in close daily contact with the Agricultural Commission, in order that each might have full knowledge of the other's doings. Indeed, it would probably be best, while providing for the representation of the State Banking Service on the Board of the Agricultural Bank, to make the latter definitely subordinate to the Agricultural Commission.

The credit agencies here suggested would be kept wholly distinct from other co-operative agencies established by the farming community. Agricultural co-operation has been extraordinarily slow in developing in Great Britain, partly because of the landlord system, and partly because of the traditional individualism of the British farmer, but largely because the combination by many of the larger farmers of the functions of producer and dealer has created a powerful vested interest hostile to its growth. The Labour Government will need to take more effective steps than its predecessors to foster agricultural co-operation; but, however energetic its action may be, it is probable that progress will at first be slow. Only the development of effective central marketing organisations, with direct help from the State, is likely to make the local movements for co-operation among farmers strong or effective.

Agricultural Co-operative Societies are of many different types. Some are concerned with the marketing of particular products—eggs, poultry, garden-produce, fruit, or the like; some with the joint purchase of requirements such as seeds and implements, or with the provision of expensive plant for joint use; and some with the execution of manufacturing processes designed to prepare agricultural produce for the market—bacon factories, beet-sugar factories, and cheese factories, for example. These last have, of course, marketing as well as productive functions, and belong to the same broad type as the first, whereas the joint purchase societies are types, not of producers' but rather of consumers' co-operation, and more closely resemble the familiar consumers' co-operative stores of the urban workers. Pure consumers' societies of this kind are also found in villages, and occasionally act as supply societies to farmers; while farmers' societies sometimes retail ordinary consumers' goods as well as agricultural requisites. There are other types of agricultural co-operation not mentioned in this brief summary; but, credit societies apart, most of the important bodies belong to one or

other of the types mentioned above. Societies actually for joint cultivation of the land are, in Great Britain, very rare indeed. The best known is the Agricultural Guild which has now for some years farmed the land surrounding the new garden city at Welwyn, in Hertfordshire.

On the whole, the balance of advantage appears to lie with forms of agricultural co-operation specialised to serve a particular function. This is in line with Danish experience, and also with that of Ireland. Specialisation enables a more expert staff to be provided: it facilitates proper scrutiny of financial results; and it makes the linking up of localised societies on effective national lines considerably simpler. We have therefore to encourage not only the growth of co-operative purchasing agencies apart from those engaged in marketing and preparing goods for the market, but also, among the latter, the growth of specialised societies dealing each with a particular product or group of products rather than of generalised bodies dealing with all types of marketing. The farmer engaged in mixed agriculture will thus be in all probability, as the movement grows, a member of several different Co-operative Societies.

Something can be done at once to foster the growth of agricultural co-operation in its various forms by making societies of all suitable types eligible both for loans of capital from the Agricultural Commission and for credits from the National Agricultural Bank. Credits, it is suggested, should come to co-operative bodies rather directly from the bank nationally than through the local co-operative credit agencies. It is not proposed that the State should find the whole of the capital needed for co-operative development in the countryside, but that it should be prepared to invest freely wherever the local farmers are themselves ready to put up a reasonable proportion of the capital required. In return for its investment, the State, through the Agricultural Commission, would acquire powers of inspection, representation on the governing body, and audit similar to those suggested in the case of private enterprises aided by the National Investment Board. It would thus exert a great and growing influence over the development of agricultural co-operation, while leaving the actual management largely in the hands of the farmers and of the full-time officers appointed by the local societies.

With capital help and a readier supply of credit, there is no reason why agricultural co-operation should not develop a good deal faster than hitherto. But there are formidable obstacles in the way. With or without State help, the movement will fail unless the farmer takes it seriously. A simple instance will show how easily a form of agricultural co-operation, most desirable in itself and capable of great success if it is properly used, can go hopelessly wrong. In recent years a number of co-operative bacon factories have been established in Great Britain. Some have succeeded and some failed; and, broadly, the reasons are in both cases quite clear. A bacon factory can be a commercial success only if it gets a regular supply of suitable raw material—*i.e.* pigs—at a fair price. The market price of pigs varies; and in some cases the farmers running the bacon factory have treated it merely as a convenience for dumping their pigs when the general market has been bad, and have withheld supplies from the factory when the general market has improved. This obviously means failure. The factory must be in a position to make contracts, at fair average prices, for the regular delivery of an assured supply. Where farmers have recognised this necessity, the bacon factory has paid, and it has paid them to keep it supplied. For a regular contract of this kind has the further advantage of enabling the farmer to breed his pigs definitely for bacon, instead of breeding them indiscriminately for pork or bacon, according to market contingencies. By supplying the factory regularly, he forgoes certain occasional windfall profits; but he gets in return an assured market and an average price at least as high as he could get without its help. He is further able to raise the quality of his product, and therewith his price; and he shares in the profit of the factory if it succeeds.

Slowly, farmers are coming to realise that co-operative marketing cannot be used—without disaster—merely as a means of dumping surplus produce, but must be taken seriously as the means of disposing of the bulk of their output. As they become prepared to act on this principle, and as State credit, distributed through co-operative agencies, rescues them from the grip of private dealers, it will become possible for agricultural co-operation to develop fast and on a large scale. But, as many of them are by no means yet in a mood to act in this way, the State will have, for a time, to proceed cautiously in the loaning of



capital and credit to agricultural co-operative bodies, and to insist on stringent conditions for the proper use of the resources which it supplies. Whatever may have been the experience of some other countries, in Great Britain agricultural co-operation can grow at present only under strong State tutelage and control.

Many kinds of agricultural produce are destined largely for local markets, and can be handled effectively by local Co-operative Societies without much central co-ordination. But London and the other great towns draw their supplies from a very wide area, and for certain types of produce—wheat, for example, and much meat—the market is clearly national rather than local. The local Agricultural Co-operative Society cannot in these cases deal directly either with the final consumer or with the greater number of local retailers—consumers' co-operative stores or private shopkeepers. It will have to sell its produce largely to some sort of wholesale dealer. The investigations of the Linlithgow Committee a few years ago showed—and subsequent inquiries by the Food Council and other bodies have confirmed the view—how disproportionate a part of the price paid by the final consumer goes in the costs of dealing in agricultural produce. The formation of local Co-operative Societies will simplify the handling of this problem, and even do away with it in the case of certain goods produced for a purely local market; but it will only prepare the way for a reorganisation, on national lines, of the wholesale marketing of the primary foodstuffs and of all agricultural produce produced for the national market.

One way of dealing with this problem would be to encourage the local co-operative bodies to federate on a national basis as the consumers' stores have successfully federated for a different purpose in the English and Scottish Co-operative Wholesale Societies. But this would be most unlikely to produce the desired results. The national federations of Agricultural Co-operative Societies would almost certainly remain weak and ineffective bodies, in which the farmers would feel only the most lukewarm interest or concern. The farmer is an exceedingly localised person in his mental attitude. He can run a local body; but he is likely to make a very poor job of conducting a national body on a delegate or representative basis.

The State, therefore, will have itself to assume the function

of national co-ordination, creating for particular products, as need demands and opportunity allows, special Marketing Boards to which the local Co-operative Societies will be able to sell their produce at a fair price. Where the home product is in competition with an imported commodity, this proposal would work in with the plan, outlined earlier in this chapter, for the bulk purchase and importation of foodstuffs from abroad, and the same national body would undertake the marketing of both the domestic and the imported produce. These Boards would, of course, have to be created gradually, on an experimental basis, and extended to additional products as satisfactory methods of organisation were worked out. They would also need to be linked together under the co-ordinating control of a single Board or Commission dealing with broad issues of policy—perhaps a department of a drastically reorganised Board of Trade.

In the case both of the national Boards for the marketing of the produce supplied from abroad or through the local farmers' Co-operative Societies and of the National Agricultural Bank, it would be clearly necessary to provide not only for the co-ordination of local and national activities by means of a strong central control, but also for the effective expression of the local point of view in the councils of the central bodies concerned. Both for reasons of wider application, given fully in earlier chapters, and for reasons peculiar to agriculture, it is undesirable to constitute the national controlling authorities on any representative basis. They must be bodies of full-time experts, and not of part-time representatives, if they are to do their jobs effectively. But there is everything to be said for the constitution of Advisory Councils, representing local opinion, and empowered to consult with the central bodies in regular conference and make representations to them on any points affecting their interests. In the Federal Reserve system of banking in the United States, the Federal Reserve Board, which is the expert controlling body directly linked up with the Government, is assisted in its work by a conference of this sort. Such contacts serve as means not only for the expression of local demands and grievances, but also for the regular communication and explanation of national policy to local representatives, who can then go back to their own areas better informed and more able to co-

operate intelligently in the execution of a co-ordinated national programme. The representative principle is bad for executive control; but it is invaluable as a means of communication and mutual understanding.

It will be understood that the suggestions so far made in this chapter are not set forth with the idea that they could be put into complete and immediate execution as an indivisible whole. They form, indeed, parts of a concerted plan, but of one designed to be brought gradually into operation, and capable of considerable modification on detailed points in the course of its actual establishment. The agricultural problem is not one, but manifold; and it needs tackling in many different ways. Nor can it be hoped that the next Labour Government will be able, during a single Parliament's life, to spare time to carry out more than a fraction of the scheme here outlined. Even the crucial reform of land socialisation will have to wait until the even more urgent matters of the coal mines and of the unemployed have been successfully taken in hand. If land socialisation comes in the life of the first Parliament in which Labour is in power with an independent majority, it will not come till late in that Parliament's life, and may perhaps, with the kind help of the House of Lords, come to be one of the issues on which the Labour Government will return to power for a second term of office. In view of this inevitable delay, it seems desirable at this stage to suggest what preliminary steps had best be taken at the outset in order to set plans for rural reconstruction on the right road.

Of the plans so far outlined, the most urgent, and the easiest to set going at once, is the establishment of the National Agricultural Bank. This might have, pending land socialisation and the setting up of the Agricultural Commission, to deal temporarily with long-term as well as with short-term credits. It would be able at once to set about the creation of local co-operative credit agencies, on the lines already proposed; and it would be in a position to give at least some stimulus to the creation of other types of Agricultural Co-operative Society by aiding them with credit and backing their claims for advances of capital from the National Investment Board, which might suitably assume this function temporarily pending the creation of the Agricultural Commission. The Commission itself could

be created at an early stage, possibly in the first instance without special legislation, and as a subsidiary of the National Investment Board. Its main function would then be to prepare the way for socialisation by the working out of a comprehensive and detailed scheme, based on an adequate land census. Taxation of urban site-values should also, as I have indicated already, be introduced at once, as a means of placing fresh resources in the hands of the local authorities, to which the proceeds would be appropriated.

It may seem strange that, in this long chapter on the rural problem, so little has been said so far of the agricultural labourer. Where, it may be asked, does he come in, and for what is he to hope from the return of a Labour Government to power? Reasons have been given already for doubting the power of a Labour Government to achieve, at the outset, any considerable rise in wages; and these reasons clearly apply with full force to agriculture, which is among the industries most severely exposed to foreign competition. Of course, a Labour Government could by law raise the minimum wage in agriculture to a reasonable living standard; but the result of doing this would certainly be a contraction of rural employment, which could not possibly be faced. In these circumstances, as we have seen, the only effective means of raising the immediate income of the village labourer is by a system of family allowances. But, fortunately, this measure will be highly effective; for the allowances, payable at a uniform rate in town and country alike, will do even more to improve the standard of life in the country than in the towns. The labourers' wages are so low that the allowances will mean a veritable revolution in village life.

This, then, is the main reform designed in the labourer's interest. Certain other reforms, such as the development of rural housing, are also capable of being taken quickly in hand; while the improvement of the amenities of village life is obviously bound up with the growth of transport and electrification. These, too, are obviously urgent tasks; but here we are concerned with changes relating specifically to agriculture rather than to the life of the village as a whole. Electrification has, of course, powerful reactions on the possibilities of agricultural improvement, as well as on the revival of village industries that can be conducted in close connection with agricultural work. In these and many

other ways a Labour Government can help the rural worker. But the main specific form of help it can give—apart from those just described—is easier access to the land on fair terms, and with a good prospect of the help he needs in capital and credit in order to make a success of a relatively small holding.

The economic arguments often advanced against small holdings are here beside the point. Let it be agreed that larger and not smaller holdings are the economic answer to the problem of general farming. There remains, as we have seen, a huge field for the expansion of small holdings, aided in their business operations by co-operative development in market-gardening, poultry-farming, the growing of fruit under glass, and similar activities directed to the supply of perishable produce for neighbouring urban markets. Such problems as the provision of cheap and efficient transport by road and rail, for the small-holder, are here of vital importance; and their solution will be greatly facilitated by the growth of co-operative marketing. The Labour Government will need to push on rapidly with the direct provision of small holdings, and to equip the Agricultural Commission, even in advance of land socialisation, with full powers to acquire land for this purpose on reasonable terms. This proposal, as we have seen, is intended to supplement and not to supersede the activities of the County Councils. Probably direct State provision will be mainly of rather larger holdings than are now mostly provided through the County Councils, or of holdings which need for their working a larger supply of loan capital and credit. There is ample room for the parallel development of both forms of provision.

It may be urged, against this project, that small-holding is a mug's game, and that there are strong social reasons against encouraging the growth of this form of agricultural production. It is said, not without reason, that the life of the small-holder is hard and laborious, and that, under present conditions, he is at a serious disadvantage in marketing his produce, and seldom gets an economic return proportionate to his work and skill. The laboriousness is, indeed, largely inevitable; but the economic disadvantages can in the main be removed by better organisation. Small-holders, as experience has shown, are likely to thrive best when they are settled together in fairly large groups; and co-operative marketing in such cases enables them to sell their pro-

duce on fair terms. Moreover, the small-holder to-day is commonly handicapped by acute shortage of both capital and credit. The former, by driving him to makeshift methods, greatly increases the laboriousness of his existence; while the latter compels him to pinch severely during the whole period of his business turnover. Remedy these disadvantages, and he will stand a far better chance, not only of economic success, but also of reasonable leisure for him and his. His life will remain a fairly hard life, but not, as it often is now, almost intolerably hard; and there will be in it far more of hope for the future.

It is further necessary, before we make too much of the hard lot of the small-holder, to be quite clear with whose lot we are comparing it. His life, given a reasonable start under the conditions proposed, is at any rate greatly better than that of the ordinary labourer, or than the lot of many urban workers. It may be said that the ordinary labourer's experience often unfits him for the responsibility of managing a holding of his own. But it is easy to exaggerate this disability, which should be at any rate largely removable within a generation, if the right measures are taken to improve the amenities of village life and the quality of rural education. Nor is it suggested that all labourers, or the majority, should become small-holders, but only that those who are fit for this responsibility should be given a fair chance of making good with the aid of State capital and credit, and of co-operative marketing facilities organised with State support.

I believe that, if the foregoing policy were carried into effect, a great increase in the amount of food grown at home could be brought about, and a considerable number of additional workers settled in time on the land. But, while it is most desirable to achieve these results, it is of no use to seek their achievement by means which are not economically sound. We have seen good reason to believe that the British electorate will not tolerate any policy that is likely to involve an increase in the price of food; and it is equally clear that it will not tolerate any scheme which keeps food prices down only by subsidising the agriculturist at the expense of the general body of tax-payers. No system of guaranteed prices above those fixed by the operation of world forces stands any greater chance of success than a policy of tariff protection. If unemployed workers are to go 'back to the land', they must do so because, under reformed conditions,

work on the land can be made to afford them a reasonable standard of life out of the economic price of its own product. There are, indeed, capital works of afforestation, land reclamation, and drainage on which it is well worth the State's while to embark at a temporary loss, but only where these offer a real prospect of showing in the long run a net balance of economic gain. Grandiose schemes for sending the main body of the unemployed back to the land, without regard to the economic possibilities of their employment there or to the consumers' point of view, are no more likely to appeal to a Labour Government than to any other.

Nor is there the smallest evidence that most of the unemployed either want to go back to the land or would be of the smallest use at the job if they went. Men drift most easily, not to the countryside, but to the towns; and the average unemployed man, while he likes a smell of the country just as much as the middle-class week-ender, has certainly no desire to live there or to earn his bread as an agricultural labourer or a small-holder. He might prefer this to mouldering away without work in a depressed area; but if he were put back on the land, wishing to go for no other reason than this, he would most likely make a hopeless mess of it and drift back before long to the town. Only a minority among the urban workers suffer from 'land-hunger', even in the mildest form, and it is mainly for this minority, and for the new generation of country-bred workers whose drift to the towns it is desirable to check, that any scheme of agricultural development must be devised. It has, however, to be remembered that the miners are to a great extent already used to village life; and it is probable that a substantial number of recruits for agricultural work might be drawn from the redundant men of the coalfields if the right conditions were secured.

A rise in the standard of life in Great Britain will make this development easier. As we have seen, under present conditions such a rise would involve a big increase in the demand for imported foodstuffs—an increase for which it might prove difficult to provide in face of the check to British export trade. Fortunately, a large part of this increase in demand will be likely to affect, not wheat, but commodities of the types whose production at home there is far more hope of stimulating. Meat, milk, butter, and eggs will be largely demanded by workers above that bare poverty

line at which needs have to be satisfied with the cheapest of foodstuffs—bread. Indeed, while a small advance in the standard of life would probably involve increased wheat consumption, a larger advance would most likely have no such effect. It is well known that, in countries where wheat is the staple food of the poorer classes, a rise in the price of wheat, or of any more costly food, is liable to lead to an increase in wheat-consumption; because the poorer consumers, driven to economise in their demand, are driven from the more expensive to the least expensive means of satisfying their hunger. A rise in their standard of life will, on the same principles, to some extent cause demand to shift from wheat to more costly commodities; and, if these can be produced at home economically in larger quantities, the increase in imports resulting from a rise in the standard of life may be a good deal smaller than is commonly suggested. This, however, depends on the rise being large enough to bring the main body of the people beyond the consideration merely of the primary needs to a point at which a wider choice of consumable commodities comes to be within their reach.

What is important, in relation to the future of British overseas trade, is not that Britain should try to feed herself, or any such nonsense, but that as much as possible of the increased demand for foodstuffs which is inseparable from any rise in the standard of living should be met from home production. This has been said already, in an earlier chapter of this book; but it seems desirable to repeat it here, in order to make quite plain the limitations within which the proposed measures for agricultural improvement are meant to be confined. Great Britain has lost a considerable part of her advantage in industrial specialisation, and the loss compels her to redistribute her economic resources in a new way. But it would be sheer economic suicide to push this redistribution to the point of attempting to be self-sufficient. If we did this, or anything approaching it, we should be merely condemning the mass of the British people to a permanent lowering of their standard of life; for it would mean so pushing forward the margins of cultivation, extensive and intensive, as to swell greatly both the average cost of food production and, still more, the cost at the margins. No possible rise in the efficiency of farming, as a result of better provision of capital and credit and improved agri-



cultural education and research; no possible economies due to organised marketing and the development of scientific grading of produce; no cheapening of transport—in short, no changes that are at present at all within our grasp, could offset this disadvantage. Even if science were to discover an elixir of fertilisation, this would presumably be available for other countries as well as our own, and would cheapen their products probably as much as ours. The consumer in this case would still demand, and rightly demand, to receive the benefit of production under the best economic conditions.

Self-sufficiency is nonsense. The British Empire and the world outside it are full of broad spaces highly suitable for extensive agriculture and stock-raising; and it is impossible for the older countries to dispense with the products of these areas except by deliberately paying more than they need for the means of life. The refusal to buy the products of these countries would cut off the best markets for British exports, and leave this country certainly a great deal the poorer as a result. Let us by all means increase food production at home; but let us do this, not with a view to dispensing with imports from the Empire and other parts of the world, but in order to provide from domestic sources a supply additional to that which we can afford to purchase from abroad. With this object, let us concentrate on developing here those types of agricultural production in which nearness to the market gives the best chance of success. There is no need to moan even if British cultivation of cereals does tend to become less intensive. This need not mean a smaller crop, and it is likely to mean a crop raised at a lower economic cost. Our best chances lie not in any attempt to bolster up British wheat-growing by artificial means, but in providing the right stimulus to the development of those forms of agriculture which offer a better return to the application of intensive methods.

I do not know whether most readers will find this chapter encouraging or the reverse. The land cranks will certainly object to it—and they are always vocal. But among the great mass of those who are really trying to solve the economic problem, I am inclined to think that the best welcome awaits a programme which holds out a reasonable prospect of substantial rural development without inviting all and sundry to go back to the

land. Land-work is tiring, dirty, lonesome, and very liable to give its practitioners the rheumatism. Perhaps it has advantages denied to other occupations which lack its discomforts. It will continue to appeal to some—probably to as many as will be needed. But let us stop talking romantically about it. That is townsman's folly.

## CHAPTER XIII

### THE CONTROL OF TRADE AND PRICES

Middlemen's costs too great—Need for improved marketing conditions—The work of the Co-operative Movement—The tendency of productive concerns to do their own marketing—Or to start joint selling syndicates—Similar to producers' Co-operative Societies—How far can such bodies control prices?—Bulk of distribution still 'unrationalised'—Dealers and their functions—Could these be performed more cheaply?—Desirability of stimulating the growth of consumers' co-operation—Co-operation and municipalisation: their respective spheres—Position of the small trader—Progressive socialisation of large-scale retail distributing agencies—The promotion of joint selling agencies under State control—The produce Exchanges—Lessons of war-time control of trade—The rebuilding of Control Boards—The problem of prices—The Food Council—Need for a better technique of continuous investigation and report—And for a public mechanism for the control of prices—The organisation of the export trades—The future of the merchant capitalist.

WE have seen, in the case of agriculture, that the weakest link in the present economic system is the provision—or lack of provision—which it makes for the marketing of farm produce. No small part of the farmer's troubles arises from the disadvantage under which he labours in selling his produce. As the investigations of the Linlithgow Committee showed a few years ago, the farmer, for most of the foodstuffs produced at home, gets a price which seems, on the face of it, far too low in comparison with the price paid by the consumer. Either the farmer gets too little, it appears, or the consumer pays too much, or, more probably, both things are true. Nor is the problem confined to home-grown foodstuffs. One Committee after another has studied the conditions under which commodities of various types—imported meat, coal, textile goods—pass from producer to consumer, and has come to the conclusion that the services of the middleman cost too much. This view is confirmed

by the steady increases, revealed by the Census figures, in the proportion of the employed population engaged not in producing goods, but in rendering commercial or financial services; by the rapid growth of distributive and financial profits and share-values; by the huge expenditure in advertising, which *inter alia* makes our overgrown penny newspapers a possibility. There is a general feeling that the marketing of goods is too costly in relation to their production, and that economies ought to be made in this sphere for the benefit of producers and consumers alike. But the investigators who report upon the present excessive costs of marketing do not, as a rule, find it easy to suggest practicable means of reducing these costs.

There are at present several different tendencies at work with the design of narrowing the margin between producers' and consumers' prices. From the side of the consumer comes the steady growth of the Co-operative Stores, which continue in most areas to make headway despite the trade slump and the depression by unemployment and under-employment of the purchasing power of the workers. The Co-operative Stores, and the Wholesale Societies in which they are federated, aim at reducing the costs of distribution and returning the saving to the consumer in the form mainly of dividends on his purchases, but to some extent also of lower retail prices. In pursuit of this end, they are led to embark upon production themselves, and become to an increasing extent direct employers of productive as well as distributive labour. But they still buy from outside far more than they produce themselves, and the bulk of the materials used in co-operative factories is produced by non-co-operative agencies. The consumers' Co-operative Movement has become the greatest single trading concern in Great Britain, as the Co-operative Wholesale Society is the largest manufacturer of certain types of household goods. To the extent of its success in capturing the retail market through the local stores, it cuts out not only the private shopkeepers and the big distributing firms with their chain stores and multiple shops, but also the private wholesale agencies which stand between producer and retailer. Of course, this is not a net saving. It costs the Co-operative Movement money to distribute goods by wholesale and retail. The saving to the consumer is the dividend on purchases, where the goods are sold at current market prices, or more or less than the

dividend, according as the co-operative price diverges from that charged by the ordinary retailer for goods of the same quality. In general, the Co-operative Stores sell at the current price, and the dividend thus roughly measures the amount of the saving they effect for the consumer's benefit.

From the side of the capitalist producers also come attempts either to reduce the costs of distribution or to secure a part of the distributive profit for themselves. This is seen where producing concerns, following the method of vertical combination towards the consumer, acquire or establish their own retail shops or trading agencies for the marketing of their products. Lever Brothers start 'MacFisheries'; boot manufacturers open shops for the sale of boots and shoes directly to the public; blanket manufacturers advertise their desire to cut out the middleman by doing a postal order business directly with the consumer. Or, in foreign trade, big producing concerns establish sales agencies of their own in various overseas markets; while, both at home and abroad, manufacturers follow the brewers' method of the 'tied house' and finance retailers, who, depending on them for the possibility of carrying on business, become tied agencies for the marketing of their goods. The motor trade, for example, is organised largely in this way.

Alternatively, firms engaged in the same line of business come together and endeavour to regulate the market by combined arrangements for the sale of their products. From common measures, discussed in an earlier chapter, for the regulation of output and prices, they may proceed to the actual marketing of their goods through a central selling syndicate, with the object of adjusting prices more exactly to what the markets will bear, and of extracting better terms by improving their bargaining power through collective action. This process has, of course, long been developed in certain trades, especially in connection with the German cartel organisations; and recently, in this country, we have watched the coal trade making tentative approaches to it with its various regional schemes for collective action in the marketing of coal, and with the still inchoate attempt to link them up into a national scheme.

This method is essentially the same as that of the producers' Co-operative Society, strongly developed in various forms among the agricultural producers of Canada, Ireland, Denmark, Russia,

and other countries. Its object is primarily that of giving the producer a better return by transferring to him a profit previously taken by the middleman or wasted in excessive costs of distribution. It may also result in lowering prices to the consumer, where the producer finds the market elastic enough to make it profitable to give the consumer an incentive to larger purchases; or in improving the quality of the service, as when it leads to better grading of produce, based on a more exact and scientific measurement of quality or definition of standards. In all these respects the capitalist selling syndicate and the Co-operative Society which groups together a number of separate producers for the collective sale of their produce stand on the same footing.

Both the consumers' Co-operative Movement and the selling syndicates and producers' Co-operative Societies of private firms and farmers are attempts at the better organisation of marketing processes. Both may result in gain to the consumer, in price or quality, or both. But whereas the object of the consumers' Co-operative Movement is to ensure this gain, in the case of producers' agencies it is, at most, only a by-product, the essential aim of the process being the improvement of the producers' position. The consumers' agencies seek the lowest possible cost to the consumer; the producers aim at maintaining that level of price which will yield them the largest profit.

What the price will be will depend on the trade concerned, on the condition of the market at a particular time, and on the distribution of purchasing power in the hands of the public. The demand is far more elastic for some types of goods than for others—that is to say, a change in prices will produce a relatively large change in the quantity demanded. Demand for most goods is more elastic at some times than at others—sometimes buyers hold back even in face of a fall in prices, while at others they readily respond to a change. And, thirdly, the elasticity of demand depends on the distribution of income. When the motor-car comes down to a price at which people with, say, £400 a year can afford to keep one, the extent of the new demand will depend largely on the number of people in the community who are at or about this level of income.

The producers' agency, in fixing prices and output in relation to each other, has all these considerations in mind. And it has also to consider the conditions under which the commodity in

which it deals is produced. Will an increased output cost less per unit to produce, or will it cost the same, or more? Conditions here again differ widely from trade to trade, from time to time, and according to the organisation of the industry concerned. Agricultural products tend, subject to many reservations, to be produced under conditions of increasing cost—the more that is produced, the higher the unit cost tends to be. Machine-industry on the whole tends to decreasing costs with increased output, while the work of the manual craftsman tends to constancy of cost. The producers' agency, taking into account both the conditions of demand and the conditions of supply, seeks to fix prices and output at the point calculated as likely to yield the maximum profit.

It can, of course, do this only within the limits of its control of the market. Competition from foreign sellers or from sellers at home outside the combination may set an upper limit to the prices it is able to charge. And, as we have seen in an earlier chapter, the State may intervene to fix upper limits in the case of certain products. But, within these conditions, the producers' agency fixes prices in the producers' interest, and serves the consumers' interest only in as far as the two coincide.

Even the great development of consumers' co-operation and the extension of direct marketing by producers have not sufficed as yet to 'rationalise' more than a small part of the mechanism by which goods are distributed. At the retail end, countless small shopkeepers still remain in competition both with the great chain and department stores and with the Co-operative Societies. Wholesale trading is carried on mainly by separate firms of dealers, who compete both with producers' agencies and with manufacturing firms dealing directly with the retailer. The export trades are still largely in the hands of separate firms of export merchants; and these are paralleled by firms of importers who may or may not be also dealers in home-produced goods. Sometimes a commodity on its way from producer to consumer passes through the hands of half a dozen different dealers, who draw their separate, and often cumulative, profits from its handling.

These dealers are not functionless. Some of them arrange for the transportation of the commodity from place to place. Some of them assume the important risk of buying from the producer

in anticipation of demand, or of helping, by forward purchases and sales in the produce markets, to steady the prices of the materials which the producer needs. They are paid for these specialised services, and not for no service at all. The question is whether they are not paid too much, and whether some of the services they perform could not be performed at far less cost, or made altogether superfluous, by better economic organisation.

The object of a Government bent on radical reform of the economic system would be, in the first place, to reduce prices to the consumer by the elimination of unnecessary costs and profits, and, in the second, to secure to the producer the best possible conditions for the marketing of his product consistently with the first need. In the sphere of retail trade, its first and most obvious step is to encourage the growth of consumers' co-operation, not by the granting of any monopoly, save in a few quite special cases, but by readily according to the Co-operative Movement any credits or capital which it reasonably requires for the development of its business, and by offering it the chance of accepting on competitive terms any public contracts that it can effectively undertake. It can also amend and improve the law relating to co-operative undertakings, especially in such a way as to give the movement protection against the misuse of its name by bodies really conducted for private profit, without the essentially co-operative institutions of open membership, disinterested management, control by the democracy of purchasing members and not by shareholders, and the return of surplus earnings to the members in proportion to their purchases.

The consumers' Co-operative Movement, however, must in the main continue to make its way by voluntary effort. The State can help it far more than it has done in the past; but it cannot, for the present, usefully grant to it any exclusive position of privilege. Co-operation is likely to continue its steady growth; and Labour in political power can help to foster its progress. But it is of its essence a voluntary movement, and it must be left to follow its own chosen lines of development.

There are, indeed, certain special cases in which it may be desirable to confer some sort of monopolistic position upon the Co-operative Movement. But these will arise only where, apart from the claims of co-operation, the need for monopoly is clearly recognised. Two services in which the need for a local



monopoly of retail distribution has already been widely appreciated are the supply of coal and milk. Socialists have long urged the municipalisation of these services; and the case for public control of them is clearly made out. But there seems to be every reason for allowing any municipality which thinks fit, instead of undertaking them itself, to hand over the conduct of either or both, under proper conditions, to the local Co-operative Society. This would not be desirable in all cases; but where the Co-operative Store has already built up a large business in the supply of milk or coal, and serves the majority of the local consumers, the delegation to it of the proposed municipal monopoly seems clearly preferable to the establishment of a new service directly under municipal management. The monopoly, however, would remain, in such cases, in the hands of the municipal authority, and the Co-operative Society would be acting only as its agent.

Apart from these encouragements given to the Co-operative Movement, a Labour Government could hardly, during its first term of office, take any drastic step towards the socialisation of retail trade. Certain forms of retailing—the selling of second-hand books and furniture, for example, and much of the retail tailoring and dress-making businesses—are best suited in their very nature to the small, independent shopkeeper, who is unlikely ever to be superseded in them either by the Co-operative Movement or by capitalist chain or department stores or by municipal shops. In many others, the small private trader will long continue side by side with his larger rivals, who may continue to encroach upon him, but will not succeed in driving him from the field. A Labour Government would in no way molest him; indeed, it would help him by so reorganising the banking system as to open the supply of credit more readily to the small man. It would not, however, apart from this, protect him against the growth of his rivals or their encroachment on the sphere of his operations. On the whole, certain trades apart, the growth of chain stores and large-scale distributive agencies makes for efficiency and saves labour and effort; and a Labour Government would certainly not seek to stand in the way of their development.

It would, however, need to control them, using precisely the same methods as have been urged in previous chapters for the

control of productive industry. The large-scale firms of distributors would stand upon the same footing as the productive concerns over which the State would gradually extend its influence. Its initial power to do this, in both cases, would come from its control of the supply of capital and credit; and it would be able to use these, in due course, for the progressive socialisation of the large-scale agencies of retail distribution in precisely the same way as for the socialisation of productive industry. As the methods and forms of this socialisation have been already discussed, there is no need to give any further account of them here. Such agencies as the great multiple provision stores, the department houses of London and the larger provincial towns, the tea-shops and tobacconists and hotels and restaurants run by national companies could be progressively brought under national control in the same way as manufacturing firms; and in the same way amalgamations could be fostered among them where the need exists.

Wholesale dealing presents rather more complicated problems; for here the need is rather to eliminate unnecessary middlemen than to bring the existing agencies under social control without vital change in their form. To a considerable extent, the question will have to be approached from the manufacturing end, by the promotion of collective selling agencies managed on the manufacturers' behalf but working under State regulation. As far as possible, the aim of the State should be to place these producers' agencies in direct contact with the retailer, and so to cut out all unnecessary stages in the passing of the product from manufacturer to consumer. Again, these agencies would draw their supply of credit from the State banking system, and depend, to some extent at least, on capital whose flow would be under State control. They would be closely linked up with the National Investment Board and its subordinate commissions, and would work within the limits of a policy broadly planned for them by the economic organs of the community as a whole.

The ease with which this method could be applied would obviously differ from case to case. It would be relatively easy to establish great collective agencies for the marketing of highly standardised commodities, but far harder where the products in question are highly diverse and the function of purchasing in

advance of demand involves a large element of skill in anticipating market conditions and changes of fashion and taste, and in guiding the choice of the consumer among many possible varieties of product. Experiments in the State control of wholesale trading would, therefore, naturally be made at the outset with highly standardised commodities, such as coal, or with foodstuffs, rather than with the more diverse products of the metal, textile, and similar industries.

This form of control could clearly be developed, not only in the branches of commerce which are interposed between manufacturer and retail trader, but even more readily in those which supply the manufacturer with his essential materials. At present the dealing in the raw materials of manufacturing industries is largely in the hands of private merchants, jobbers, and brokers operating upon the various produce and material exchanges. These dealers, and the exchanges where they exist, serve the purpose of enabling the manufacturer to a large extent, at any rate where dealing in futures is commonly practised, to transfer to the dealer the risks arising from fluctuations in the prices of materials, and thus to concentrate on the risks which his expert knowledge enables him to face with greater competence. This form of 'insurance' for the manufacturer is often held to justify the speculative dealings on the produce exchanges. The merchant, it is said, assumes the risk, in relation to which he is expert, of anticipating the course of prices for raw materials, and thus relieves the manufacturer of a risk which might easily upset his most careful calculations, based on his costs of production, of the price at which he could afford to enter into forward contracts. The merchant's profits, it is urged, are the legitimate reward for assuming this risk, and the occasional wild speculation on the produce exchanges is merely the incidental friction of a mechanism on the whole necessary and beneficent.

It is clearly true that the produce exchanges and the dealers in the raw materials of industry do perform a necessary service. The manufacturer must have some organised market in which he can buy his materials, and it is to his advantage to avoid as far as he can the risks incidental to the fluctuations of their prices. But it does not follow that the present arrangements for meeting these real needs are satisfactory. We cannot abolish the Liverpool Cotton Exchange, or any other of the great produce

exchanges, without putting something in its place. But it may well be that the real service which the produce dealer now performs could be performed better and more cheaply by some other agency.

Great Britain draws so large a part of her raw materials of industry from abroad that the question is obviously bound up with the organisation of the trade in bulk imports. It was suggested in the last chapter that a scheme for the bulk purchase from abroad of certain vital foodstuffs, while it could not be used to protect British agriculture from foreign competition, would be likely to result in more economical buying. This clearly applies as much to such vital materials as raw cotton as to wheat or any other foodstuff. The functions now performed by the Liverpool Cotton Exchange might be rendered altogether unnecessary if the importation of raw cotton were organised through a Central Cotton Purchasing Board, which could enter into forward contracts for supply with the American, Egyptian, and other producers, and so keep the supply of cotton on the market in close relation to industrial needs, and eliminate price fluctuations due, not to real changes in the conditions of supply, but to uncertainty about these conditions or to speculation based on this uncertainty. Such a Board would, of course, need to operate on a very large scale, and, on occasion, to store reserve supplies in order to stabilise the market. But it would be in a position to do this without fear of having its calculations upset by the intervention of the speculator.

Great Britain possesses already an accumulated fund of experience of this form of regulation. During the War it was applied to one raw material after another, by the War Office Contracts Department, the Food Ministry, and such special bodies as the Wheat Commission. On the whole, despite the fact that the machinery of control was improvised in a hurry under exceedingly difficult conditions, the system worked well. It is not suggested that it can or should be applied at once indiscriminately to a wide range of commodities. But experiments along these lines are well worth making wherever the existing organisation for the supply of raw material is either chaotic or, as in the case of cotton, the prey of speculative influences.

During the War the controlling authorities which undertook

the bulk purchase of vital materials and their distribution to manufacturers were either Government departments or boards or commissions acting under Government control. In the case of wheat, the work was done by a practically independent commission of experts; in that of wool, while distribution to the trade for civilian purposes was in the hands of a representative body of employers and workers in the industry, collective purchase of the material was kept in the hands of the War Office Contracts Department with its expert advisers. Plainly, if the system is now to be revived under conditions of peace, there are two possible forms of organisation for it. One is that of an expert commission, and the other that of a representative body controlled by the manufacturers, with adequate representation of working-class interests. In the case of agricultural products, we have seen reasons to prefer the expert commission as the central controlling agency. In such a case as cotton, an attempt might well be made to get the Lancashire manufacturers and operatives, with State help, to come together into a co-operative purchasing agency designed gradually to supersede the Liverpool Exchange as the organiser of the supply of raw cotton. Such a representative body would, of course, in practice have to rely for its administration on expert managers, while an expert commission would need the assistance of a consultative body representative of the trade. But the two forms of organisation are materially different; and it would seem desirable that experiments should be made along both lines. If, however, manufacturers proved unable to organise a body of their own on representative lines, it would always be open to the State, after giving them the chance of doing the work themselves, to set up an expert commission; and if subsequently it seemed better to give the organisation a representative form, the change could be made without any dislocation of the machinery.

It would in most cases be neither necessary nor desirable, at the outset, to arm any agency of this sort with monopolistic powers. It could be created side by side with the existing machinery for merchanting, and left to succeed or fail according to its efficiency in supplying more cheaply the services required by the manufacturer. Thus, if a body of the kind proposed were created in Lancashire, the firms requiring raw cotton would be invited to join, but would be free, if they preferred, to remain

outside. Firms joining the new body would have, however, to purchase, subject to closely defined exceptions, their entire supply through it, and to forgo, in the interests of price stabilisation, occasional temporary advantages which they might secure by picking up bargain lots outside. The new agency would have to provide for the selling of 'futures', and to assume the risks now borne by the merchants. But it should be able to do this more cheaply, because the risks would be greatly reduced, through the co-ordinated and scientific organisation of bulk purchase.

Evidently, the possibility of experiments along these lines depends on the willingness of the manufacturers, or a substantial number of them, to co-operate in their working. An Import Control Board for the cotton trade of Lancashire would not succeed unless and until an appreciable part of the trade wanted it and was prepared to give it a fair trial. A Labour Government could not force it upon an unwilling body of manufacturers. It is therefore quite uncertain how soon the time will be ripe for the initiation of schemes of this sort. It has, however, to be remembered that, if the measures for the supply of capital and credit proposed in earlier chapters were adopted, many sections of manufacturing industry would become increasingly subject to State persuasion, and participation in schemes for bulk purchase might well be made, on occasion, a condition of State financial help. Moreover, even without this leverage, the utter disorganisation of the industry of Lancashire must lead it before long to large-scale experiments in collective organisation; and the Lancashire manufacturer has, as a rule, no such tenderness for the Liverpool merchants as to make him reject out of hand a plan designed to bring about their gradual elimination. The chance to experiment along the lines suggested may therefore easily occur a good deal sooner than, on the face of it, now appears likely.

The above suggestions are very tentative; for, while one may reasonably be sure that, in the long run, a collective organisation for the control of wholesale trading in standardised commodities and materials is bound to follow more or less the lines proposed, it is clearly impossible at the present stage to lay down any definite plans for the transition. A Labour Government, save where special circumstances clearly make an immediate experi-

ment desirable, would certainly not begin by tackling the highly complex problem of the socialisation of trade. The control of the machinery for providing new capital and credit, and the progressive socialisation of large-scale undertakings by the methods proposed in previous chapters, clearly claim precedence.

A Labour Government, however, would certainly not be able to leave the processes of buying and selling unregulated, even where it was not ready to set up any collective agency for their conduct. Even Coalition and Conservative Governments during and since the War have been repeatedly driven to intervention in these matters. During the War, there was built up, in one trade after another, an elaborate mechanism for the regulation of selling prices. Save in the special case of rent restriction, these regulations have now been allowed to lapse; but, since the War, we have had the Profiteering Act, with the numerous inquiries conducted under it, and we have now the Food Council, to which Mr. Baldwin has recently promised special powers if it fails to secure voluntary disclosure of adequate information; and, when the Labour Government was in office in 1924, it endeavoured to carry through a special Act designed to prevent profiteering in the prices of building materials.

Most people are disappointed with the results secured by the Food Council and the other bodies which have been set the task of acting as the consumers' watchdogs against extortionate prices. These bodies pour out a mass of information, and much of it appears to indicate that the consumer is being charged too much. But the detail is bewildering to the ordinary citizen; and, despite the reports and the solemn warnings given to traders, nothing much seems to come of the whole elaborate mechanism of investigation. There are several reasons for this. One is that no satisfactory technique of investigation has yet been worked out, with the result that most of the reports are amateurish and do not really give the information that is needed. Obviously, if price investigation is to be a recognised part of the machinery of social control, a really well-equipped office, with an adequate staff of highly skilled experts, is essential for its conduct. Amateur committees cannot possibly carry through this highly complicated work with even moderate success.

Secondly, the powers at present given to these investigating bodies are wholly inadequate. They must, if they are to work

with efficiency, have accountants of their own with direct access to the books of the traders concerned, and not be compelled to rely on summarised and grouped statements submitted by the trading associations and open to no check. An occasional threat to take special powers to compel disclosure of information is not effective. What is needed is a continuous machinery of inquiry at the disposal of a body armed with fully adequate powers.

Thirdly, the logical complement to the investigation of prices is the power to control them. It is not suggested that this power should be placed in the hands of the body which conducts the investigation, but that this body should have the power to appeal to some sort of tribunal armed with the necessary authority. Thus, if the Food Council sees reason to think that the price of, say, butchers' meat is too high, it should have power not only to make an investigation and publish a report, but also to arraign any party guilty in its view of profiteering before a quasi-judicial body similar in function to the Railway Rates Tribunal. The party accused of profiteering would then, of course, have the right of reply, and the tribunal, in the light of the evidence, would either fix, or refuse to fix, maximum wholesale or retail selling prices for the product or group of products in question. It is not here suggested that the profiteer should be punished for his offence—that is on the whole a useless proceeding under present conditions—but that he should be prevented from profiteering further by the fixing of a fair price.

Obviously, it is not desirable for the State to assume the responsibility for a general fixing of maximum prices. The method would be applied only as a remedy for clearly demonstrated abuses; and the regulation would be only temporary, and renewable only on renewal of the abuse. What is desirable is that the power to fix prices should be general, at least over the entire range of the ordinary consumer's regular needs, in order that it may be available in any particular case of profiteering without the need for special legislation. Concretely, then, the proposal here made has two main features—the improvement of the machinery available for the investigation of alleged cases of profiteering, and the provision of a quasi-judicial authority with power to fix maximum prices on the application of the investigating body. Needless to say, both these bodies would have to be empowered



to deal with the wholesale trader and with the manufacturer as well as with the retail trader.

These proposals are closely connected with the suggestions made earlier in this book for the development of a continuous system of public scrutiny of industrial affairs. Increasingly, we must substitute for occasional special investigations of the affairs of a particular industry or trade an automatic system of continuous recording of economic developments. Special investigations are usually unsatisfactory because the necessary information, not having been collected at the time, is no longer available in a suitable form when it comes to be needed. Even if a mass of data are presented, they are usually not the right data, or are in forms which make exact comparison impossible. We need to make continuous investigation so much a matter of routine that the abuses of profiteering and inefficiency in both production and trade are brought naturally to notice, and that the investigating body, having its attention almost automatically directed to them, can rapidly assemble the facts needed for a judgement. For rapidity of action is, in these cases, essential. At present, nine times out of ten, by the time a report on the prices charged by a body of traders becomes available, the facts which it records are already so far out of date as to form a very unsure foundation for judgement or action in the current situation. Continuous record would remove this difficulty, and therewith the greatest obstacle in the way of a smoothly acting and rapidly adjustable mechanism for the State control of prices.

This chapter has dealt so far with the problems of wholesale and retail trade in those commodities which, whether produced at home or abroad, are destined for consumption at home. The organisation of the export trades obviously presents special problems of its own. Except in the case of coal, British exports are mainly manufactured goods of very diverse types. It should be easy enough to organise the marketing of coal abroad through a central selling syndicate; and, indeed, the coalowners themselves are evidently moving, albeit slowly and with almost ludicrous hesitance, in this direction. Steel, and certain of the more standardised products of which it is the material, may be capable of similar organisation without great difficulty. But most other important exports are too diversified to be dealt with in this way; and, for some time at least, the trade in these will continue to be

in the hands either of the various producing firms, or of special subsidiaries created by them for the exploitation of foreign markets, or of merchant houses and shippers trading either in a particular product, or to a particular port or market.

A Labour Government will need to do its best to foster collective action in the exportation of standardised commodities such as coal and steel, and will have to establish a regular system of scrutiny and control over the collective organisations established with this object. It would, in addition, with the progress of its policy of the socialisation of enterprises, be bringing under its direct control more and more of that part of the export trade which is conducted by producing firms or their subsidiaries. In relation to that part of the trade which remains in the hands of specialised merchants, it would be able to exert a considerable influence through its control of the mechanism of credit. But it should not, and clearly would not, seek at the present stage to substitute for the private enterprise of the merchants in this sphere any general form of collective organisation. Private capitalism began with the merchant engaged mainly in overseas trade; and this type of merchant will probably be the last of the great capitalists to be superseded by collective organisation. His sphere of action is likely, however, to be progressively invaded both by the producing firms and by selling syndicates and co-operative agencies based upon them; and he will, if the policy outlined in this book is carried out, find himself working under an increasing State control secured largely through the State's hold upon the supply of business credit.

## CHAPTER XIV

### THE EMPIRE—FOREIGN AFFAIRS

This chapter limited to the purely economic aspects of imperial and foreign policy—The possibilities of developing Empire trade—And migration—Gains and losses of Empire—The exploitation of native labour—British and native capitalists—British policy in Africa—Impossibility of withdrawal from imperial commitments—Great Britain and the Dominions—Investment of capital within the Empire—Bulk purchase of imperial products—The case against tariff preference—Forms of preference without a tariff—Should the Dominions grant tariff preference?—Trade relations with the non-self-governing territories of the Empire—Case against planter-control—The Empire Marketing Board and its work—Need for its development—Desirability of pooling the world's economic research—Is 'Imperialism' the enemy?—Modern growth of Empires—Need for a change of policy designed to put native interests first—The problem of 'mandated' areas—The League of Nations in relation to non-self-governing peoples—Economic functions of the League—Disarmament—The International Labour Organisation—The International Economic Conference of 1927—The lowering of barriers to international trade—The growth of international capitalist combination prepares the way for international State control—Need for international action to raise the standard of life—Great Britain's interest in this—The Russian problem—Case for full recognition—China—Imperialism as a cause of war—The rights and duties of Britain as an imperial power—Why the British Empire should not be broken up.

It is not my intention, in this book, to deal directly with questions of foreign or imperial policy. I am writing, not about the policy of the next ten years in all its aspects, but about some parts of it which are directly concerned with economic and social matters in a restricted sense. There are, however, certain points at which it is clearly impossible to deal with economic and social policy without some discussion of foreign affairs and imperial relations. Already, in dealing with the future of British overseas trade, we have had to discuss the plans of the 'Imperialists' for fostering economic self-sufficiency within the Empire.

Discussion of unemployment and population inevitably involves some consideration of the problems of migration, both within the Empire and outside; and it is clearly impossible to deal with the financial aspects of Labour's social programme without considering the practicability of releasing public resources by a reduction of the swollen expenditure on armaments.

In the second chapter of this book, two of these three problems have already been discussed in a broad way. On the question of trade within the Empire, it has been suggested that, however desirable its expansion may be, there is no early prospect of it growing so rapidly as to replace to any considerable extent the foreign outlets for British goods, or to absorb any appreciable part of the unused productive power of our unemployed. On the question of migration, it has been urged that the power of the Empire to absorb British emigrants cannot be so speeded up as to affect materially the number of unemployed workers at home. But both these conclusions have been stated only in a rough and provisional way, and it is necessary here to restate them, in relation to the wider aspects of our imperial and foreign economic policy.

The desire to develop trade and migration within the Empire is partly economic and partly political. With that part of it which is bound up with the desire for the political aggrandisement of Great Britain I am not here concerned. But the argument that it is desirable to link up the world into larger political units, instead of breaking it up into smaller nation-states, has obviously economic as well as political bearings. One of the chief troubles of Europe to-day is the multiplication by the Peace Treaties of political and economic frontiers, which both lead to national and political bickerings and by their ignoring of economic realities hamper the restoration of European trade and the development of production on sound lines of minimum cost. The scattered territories of the British Empire are not fully analogous in this matter to the compact continent of Europe; but it seems certain that, in a purely economic sense, most of the countries which form the Empire benefit from their connection with it, and would lose by severance from it. This applies, in the purely economic sense, not only to the self-governing Dominions, but also to a large part of the Empire which is not self-governing. The economic development of most

of the countries within the Empire is fostered by the imperial connection, which aids them both in the raising of capital and in the finding of markets for their products. Great Britain, on her side, benefits, both because she finds a market within the Empire for a large part of her exports, and because her capitalists levy on the Empire a substantial toll of profit for their services in lending resources for economic development.

Often these gains are purchased at grave cost. Native labour is grossly exploited in India and Ceylon, and in certain parts of Africa; and, while this exploitation is a source of high profits to British investors, some of it results in destructive competition with British home industries—such as the cotton and jute trades. Forms of virtual slavery are still practised under the British flag; and the economic development which follows the flag is often by no means an unmixed blessing to the native, to whom the British settler insists on teaching the moral lesson that in the sweat of his brow shall he eat bread. Kenya, by all unbiassed accounts, does not appear to be a nice place; the tea plantations of India and Ceylon seem to be poor nurseries of British virtue; and the mills of Calcutta and Bombay serve to draw attention to the fact that the white man's often connotes the brown man's burden.

These are evils which it must be the object of Labour's foreign and imperial policy to remove, without allowing itself to be turned aside by the interested protests either of British settlers or of native capitalists. If I were writing a book about foreign and imperial policy, I should have a great deal to say about the steps to be taken for removing them; but here I am concerned rather to point out that the existence of these evils cannot be laid wholly at the door of British Imperialism. The British is certainly no worse than the native capitalist who imitates European methods of production. Indeed, conditions are worse in China, which has suffered European penetration without accepting European rule, than in India, where Great Britain has been compelled to accept responsibility after seeking only plunder. In saying this, I am not concerned to justify Imperialism, but only to point out the obvious fact that its evils cannot be remedied by a mere withdrawal of British political power. The lot of the Indian factory hand would probably be worse and not better if the British political control of India were suddenly removed.

It is of course true that the inclusion of a territory within the British Empire tends, by establishing political security and attracting capital to it, to intensify the pace of economic development. This leads to a rapid invasion of native habits and ways of life. In densely settled country like Nigeria and on the Gold Coast, British policy has on the whole wisely adapted itself to native forms of cultivation, and devoted itself to improving the native's economic position by securing better outlets for his produce. The British reward comes, in this case, largely in the form of a dealer's profit on the expanding supply of materials produced by the natives. In Kenya, on the other hand, where population was relatively sparse and a substantial part of the country healthy for British settlers, the introduction of a plantation system under British control has led to quite different results—to the alienation of a large part of the land from the native inhabitants, to a demand for forced labour in order to render these alienated lands productive, and to the growth of a ruling caste of white planters acutely hostile to native claims. In Nigeria, the native worker as well as the white trader has, on the whole, probably benefited by the British occupation: in Kenya the economic development of the country seems at present to be achieved at the native's expense.

Even in Kenya, however, it is quite clear that the removal of British control is politically impossible. A Labour Government could, and I hope would, enforce drastic reforms in the government of Kenya and of other colonies and mandated territories presenting similar features; but no British Government could possibly propose simply to clear out—if only because our walking out would be an invitation to some other Government, or perhaps even to mere private adventurers, to walk in. Nor need it be concluded, because the present methods of our rule in Kenya are indefensible, that our rule is itself a calamity. It needs drastic reform—as drastic as when we at last decided in the nineteenth century to make slavery illegal throughout the Empire. But, if this reform could be secured, it would probably be better for the natives even of Kenya to be in the Empire than outside it.

The question of the self-governing Dominions is, of course, widely different from this; and the case of India stands by itself. The connection between Great Britain and the Dominions is,

nowadays, purely voluntary. If they wished to break it, we could not for a moment say them nay. They do not, partly for sentimental reasons, partly because their connection with the Empire saves them from the need for heavy military expenditure of their own, partly because Great Britain is an excellent market, and, especially since Dominion stocks were made trustee securities, a most useful supplier of capital, and partly because severance would involve a dislocation and disharmony for which there would be no economic or political compensation. There are other reasons; but these suffice for the purpose of the present discussion. They may or may not suffice to keep the Dominions permanently within the Empire—for the situation may radically change. But, for some time ahead, not even the South African Nationalists seem in the least likely to raise seriously the banner of independence.

The interest of Great Britain is, on the whole, to maintain the *status quo* in this field of imperial relationships. Any closer political bond would be likely to involve not only an increased tendency to the aggressive waving of the imperial flag in the face of the foreigner, but also a drawing closer of economic links. These could only be effectively tightened by giving the Dominions some measure of control over the economic policy of Great Britain. They would almost certainly use this to demand an extension of imperial preference, which could be made effective only by the taxing of foreign foodstuffs. The British consumer would not have this; and the attempt to make the bonds of Empire stronger would therefore in all probability end in an open rupture.

If, on the other hand, the existing political relationships are left, save in minor matters, undisturbed, it should be possible, without any adoption of a system of tariff preference, to draw the economic bonds between Great Britain and the self-governing Dominions as close as is at all desirable. Having established its control over the flow of capital, a Labour Government will be free, after meeting the needs of industry at home, to guide an increasing part of the surplus capital available for investment overseas into imperial development, encouraging especially those Dominion services which are the complements rather than the competitors of the home producer, and therefore serve to foster trade between Great Britain and the Dominions. Secondly, to

the extent to which the system of bulk purchase of imports is introduced, the Labour Government will be able to give to Dominion producers who can offer supplies at fair competitive prices an assured and stable market for their produce, and thus to stimulate the expansion of output in the Dominions in all that wide range of commodities which Great Britain needs to import. This in turn will obviously have a favourable effect on the possibilities of emigration to the Dominions from Great Britain; and it will be necessary to direct the export of capital in such a way as to harmonise it with schemes for assisted emigration.

A policy worked out on these lines affords the prospect of helping the producers in the Dominions without putting a tax on the British consumer, and indeed while conferring a positive benefit upon him. There is no objection to that form of tariff preference which remits or lowers to the Dominion producer any import duty imposed for quite other reasons upon the foreign producer. But Great Britain, as was shown when the question was fully discussed at the Imperial Economic Conference, can do little to help the Dominions in this way. She has few existing duties on which she can grant an effective preference to the producers within the Empire; and she certainly ought not to put on duties merely for the purpose of exempting Empire produce from them, or even to maintain for the sake of Empire preference existing duties for which there is no good economic case. The quest for tariff preference is a barren quest; for the things on which the Dominions would most like us to place a duty, with preference for Empire goods, are precisely those in relation to which the imposition of any duty is most obviously impossible. The Dominions send us chiefly foodstuffs and raw materials; and neither the consumer nor the producer in Great Britain will stand a tariff on these.

What we have to learn is that effective preference can be given in other ways without tariffs and without cost to the consumer. When a big producing business enters into arrangements for the supply of the raw material which it requires, it often makes a bulk contract over a considerable period, or actually invests capital in the concern which needs developing in order to meet its needs. These forms of vertical combination are praised as examples of the wise economic statesmanship of private enterprise. The arrangements which I have proposed between Import Boards in



Great Britain and associations of producers in the Dominions are essentially of the same order. This country needs, say, wheat or meat, or wool or cotton. It can arrange to buy in bulk, at a contract price so fixed as to give stability over a considerable period, a large part of the required supply from the body of producers in Canada, or Australia, or South Africa, just as the Government during the war brought Australian wheat or the South African wool-clip. Not only can it do this: it can also arrange, through the National Investment Board, to facilitate the flow of capital into those services in the Dominions which can be usefully developed as suppliers; and, through the nationally controlled banking system, it can take any desirable steps to help the Dominion banks in the granting of the necessary credits.

This policy applies primarily, but by no means exclusively, to the self-governing Dominions. It can be applied also to rubber from Malaya, cotton and wheat from India, cotton from the Sudan, oil from Burma, and any of a wide range of products from all parts of the Empire. It is best and easiest, however, to begin mainly with the Dominions, and especially with those Dominion products which are already marketed to a great extent through large-scale co-operative selling agencies. Canadian wheat is, of course, the obvious and outstanding example.

It is a matter for the Dominions whether or not they grant us tariff preference for British goods. We have no more right or claim to interfere with their tariff policy than they with ours. Nor can we claim any *quid pro quo* of the same order for the policy which we propose to pursue in fostering their economic development. In exporting capital to the Dominions and in attempting to draw a large part of our imports of foodstuffs and raw materials from imperial sources, we shall be following in the main our own interest, and certainly doing nothing in any way altruistic. We reject tariff preference because it would not pay us, and accept non-tariff preference because it will. We must expect the Dominions to act on the same principle, and to do what suits our interests only if it also suits theirs. If they have tariffs, and are prepared to give us some sort of preference, so much the better. But that is their affair; and we must not demand it as a *quid pro quo*. All that we can reasonably claim is that, if we supply a large part of the capital for Dominion development, we shall be given first chance of supplying the labour to which the capital

will give employment, and that, if we provide the principal market for Dominion producers, and give them the first offer of supplying us on competitive terms, they shall give us a similar chance of supplying them with the commodities which they need to import. This cannot take the same form of bulk purchase as can be arranged for our purchase of Dominion produce; for our exports are mainly manufactured goods of far more diverse types. It can only mean, apart from tariff preference, the placing with British firms by Dominion importing concerns of as many orders as the former can execute on fair competitive terms.

In dealing on these lines with the self-governing Dominions we shall be entering into bargains on equal terms. The difficulty is far greater in the case of territories which are not self-governing. India has, indeed, nowadays tariff autonomy; but this autonomy is in the hands of a Government of India which cannot be held to represent the Indian people. The Crown Colonies and Protectorates have no tariff autonomy at all; and such influence as they possess over their economic policy is often wielded by a tiny minority of British settlers whose interests certainly cannot be identified with those of the native population. Moreover, whereas capital invested in the Dominions commonly passes under Dominion control, capital in the less-developed parts of the Empire usually remains under the direction of British capitalists, who administer it with a view to their own profit and not to the best interests of the territory in which it is sunk. Their aim is often to obtain an assured supply of some vital raw material for the use of their own, or of associated, factories at home; and their interest in the affairs of the territory from which this material comes is often limited to the securing of the required supply. In these cases it is the business of the Colonial Government to act as the disinterested guardian of the welfare of the Colony, and not of the white settlers in it or of the investors in Great Britain who have helped to supply it with capital. In these circumstances, the development of representative institutions in which the white inhabitants of the Colony occupy an exclusive or predominant position is a thoroughly bad thing, destroying the disinterestedness of the Colonial Government without making any real approach to self-government by the native population. Autocratic government controlled from the Colonial Office is infinitely preferable to government controlled by white settlers

and capitalists; and we must be always on our guard against mistaking the latter for a first step towards the establishment of truly responsible institutions.

It falls outside the scope of this book to discuss the necessary steps towards the setting up of responsible government in India and other parts of the Empire which are clearly in some measure ripe for it. But it is necessary here to insist that in those parts in which no such approach is at present possible, a Labour Government will need to govern autocratically, and especially to override constantly the desires of British resident planters and traders, and of great capitalist firms which have established productive or trading agencies overseas. It is Great Britain that is responsible for the good government of these territories; and this responsibility cannot be delegated.

If it is possible, as I have suggested in the foregoing pages, to foster a large increase in trade within the Empire without any resort to tariffs, merely by a systematic adoption of the method of bulk purchase of necessary imports and a conscious application of capital to the development of those forms of Empire production which are best suited to the British market, such a policy clearly offers by far the best hope of reconciling the growth of Empire trade with the maintenance of our economic relations with the rest of the world. In it, the antagonism between 'Imperialists' and 'Europeans', discussed in an earlier chapter, disappears. But whether it will be practicable or not depends on the efficiency of Empire production and of Empire marketing. If it is worth our while to foster Empire trade at all—and I think it is evidently very well worth while—we must concern ourselves with devising the most efficient methods both of producing the goods we want within the Empire and of bringing them from their place of production into the hands of the consumer.

This was the main object with which the Empire Marketing Board was set up rather more than two years ago. The Imperial Economic Conference of 1927 soon discovered that no solution of the problem could be found in tariff manipulation. It left behind an Imperial Economic Committee which set on foot a number of valuable enquiries into the methods of marketing certain of the principal foodstuffs grown within the Empire; and now the work which it instituted is being developed and

greatly widened by the activities of the Empire Marketing Board.

This body must not be judged merely by the effect upon us of its posters adjuring the worthy Briton to eat Empire fruit, or buy Empire meat, in preference to foreign produce. These forms of propaganda may have their value; but they are certainly the least important part of the Board's work. Of far more account is the help which it gives to the various institutions, such as the Imperial College of Tropical Agriculture at Trinidad and the Imperial Bureau of Entomology, which are engaged in forms of research designed to help the Empire producer to combat tropical and subtropical pests and diseases, to find the types of produce that will best stand long-distance transport or endure difficult climatic conditions, to introduce improved methods of cultivation, to overcome the diseases of settlers and natives as well as of plants and cattle, to amend the grading of produce, and in countless other ways to eliminate risks and wastes that now hamper the producer in getting the best price for his goods or in serving the British consumer to the best advantage. A glance at the current report of the Empire Marketing Board will show the large amount of work that is already being done in the field of imperial economic research. But this work is still at its beginning, and is capable of immense development during the next few years.

A Labour Government will be wise to place money generously at the disposal of the Empire Marketing Board, both for the rapid development of research along many different lines, and for the scientific study of the commercial problems of marketing Empire goods with the greatest possible efficiency and cheapness. This policy works in closely with the plans already outlined for the introduction of schemes of bulk purchase, and for the loan of capital in order to allow Empire resources to be more intensively exploited. It has, moreover, the advantage that its effects are directly felt by the producer. When the experts of one of the chain of imperial research stations that are now being created has taught a particular planter or farmer how to deal with a destructive insect pest, or how to grow a new variety of produce that will reach the British market in better condition, the value of the service is far more readily realised, and more continuously appreciated, than even if the development of

Empire trade had been definitely fostered by means of a tariff. No money is so well spent as that which is applied to properly directed schemes of research.

In the long run, maybe, the nations of the world will have sense enough to pool all their research work, and to unite in a common effort to eliminate disease and waste from the processes of economic life, and to develop in common the vast productive resources which are at their disposal.<sup>1</sup> When they have reached this stage, it seems likely that political frontiers will have ceased to have an economic meaning, and that Empire and Empire trade will have become merged in the larger concept of a world unitedly working out its economic salvation. But clearly that time is not yet; and for the present there is every reason why, without holding back the results of our research from anyone who desires to use them, we should concentrate our efforts on those problems of scientific and industrial investigation which promise the best results in the building up of our trade within the British Empire. We must not forget that not very far short of half the total value of British exports is now consigned to imperial territories, and that the inhabitants of these territories cannot afford to buy more of our manufactures unless we put them in the way of producing better and of selling to us a larger quantity of their produce.

I strongly suspect that the views put forward in this chapter will be unpalatable to some Labour supporters, who are apt to confuse all attempts to foster imperial relationships with the forms of economic imperialism which they rightly denounce as dangerous to the peace of the world. But why is economic imperialism dangerous, and what are we to do with the Empire if we are not to develop its resources? It is rightly said that economic imperialism has been, in recent decades, the most fruitful cause of dissensions among the greater Powers. Each country, or some group of capitalists within it, has coveted the undeveloped territories of the world, with the result that, during the past fifty years, almost all the important areas that were not previously under the control of these Powers have been openly or virtually annexed, or at least divided up into 'spheres of

<sup>1</sup> Such gatherings as the World Power Conferences and International Fuel Conferences of the last few years, are clearly hesitant pointers towards such a co-ordination of effort.

influence' and subjected to a large measure of foreign control. Since 1880, the greater part of Africa has been partitioned, and in Asia the lesser independent kingdoms have been brought under various forms of aggressive foreign influence. Persia has been wrangled for by British and Russians; Korea has been annexed by Japan; British rule in India has been greatly consolidated; and China has been the prey of concession-hunters who have been prevented only by their own dissensions and by its teeming population from bringing a large part of the country under European, Japanese, and American control. Moreover, the scramble for concessions and sources of vital materials, such as oil, has constantly threatened to set the great States by the ears, and must be adjudged to have been among the principal underlying causes of the world war of 1914.

This is a powerful indictment of modern imperialism; but it does not affect the questions which I have been discussing in this chapter. For good or ill, the British Empire has spread itself at large over the world, occupying some territories with English-speaking people who have practically exterminated, or driven into mere reservations, the previous inhabitants, and planting in others a minority of British settlers, Indians, and other immigrants, who superimpose themselves as rulers, employers, and traders on the native populations. Territories of the former type, and even such hybrid areas as South Africa, have evidently passed permanently into white occupation, and it is better that they should be filled up by further white settlers from Great Britain than by black or yellow immigrants who will beat down the standards of life that have been built up among the present populations. There is no question of Australia for the aborigines; and 'White Australia' is greatly to be preferred to Australia cultivated by yellow labour working under a white aristocracy.

In territories of the second type, the problem is more complex. But, as withdrawal from these areas is clearly out of the question, and would, in many cases, merely lead to their annexation or exploitation by other Powers, or to a completely lawless control by the white settlers, we have to make the best of the situation whether we like it or not. We have at our disposal great resources of knowledge—in the field of tropical medicine and tropical agriculture, for example—which can be used to improve the social and economic condition of the native inhabitants. We

have to see that they are so used, and that the non-self-governing parts of the Empire get their full share of the measures designed to eliminate disease and foster economic development. Secondly, we have to protect the native against the British concessionaire, and especially against the planter developing estates with a large capital, and the big company entering a colony or protectorate for the purpose of exploiting its economic resources. In the latter respect, the State control of the export of capital will place a powerful weapon in the hands of any Government that is really determined to safeguard native interests: the former is above all a matter of wise colonial legislation on questions of land and labour, and of strong impartial administration as little as possible amenable to influence by the white settlers on the spot.

These measures are not suggested as cures for the evils of economic imperialism. The disease goes too deep to be easily eradicated, even by a Government prepared to grapple with it courageously. For past mistakes cannot be simply undone, and what has been wrongly destroyed cannot be easily reinstated. Nor can we avoid arousing the jealousy of other Powers because we possess by far the largest and most valuable Empire in the world, and have shown in recent decades an uncanny skill in adding to it. We can only make up our minds that for the future we will tolerate no new use of our imperial power that runs counter to the welfare of the inhabitants of the territories over which we rule, that we will push forward education among them with all speed, whatever may be the difficulties to which it gives rise in the transitional stages, and that we will by this means seek everywhere to prepare the way for self-government, and in the meantime stand out firmly against the claims of the small minority of British settlers to govern the native population in their own interests.

This policy, enforced in the territories under British control, carries with it a new attitude towards international intervention in their affairs. Up to the present, the 'mandates' granted to various nations under the Peace Treaties have been treated as virtually equivalent to cessions of the areas concerned to the mandatories; and the League of Nations, dominated by the great Powers which hold the mandates, has done little to see that they are exercised in the interest of the native populations. It is, however, clear that any real system of 'mandates' ought to carry

with it the regular inspection of mandated areas by disinterested commissioners acting under international authority. It should be part of the work of a Labour Government to secure the establishment of a regular system of inspection by and report to the League of Nations for all mandated areas. Moreover, this system of inspection, once set up, might well be extended to alien territories now 'protected' or ruled by the great Powers; and Great Britain might well lead the way by offering to submit voluntarily to this public audit of her dealings with all the non-self-governing territories under her political control.

This is, of course, not the only way in which a sensible Government would endeavour to make the League of Nations a more effective instrument. The League cannot serve the purposes for which it was professedly set up as long as the great Powers form a cabal outside it, and come to it only for the registration of decisions already taken privately among themselves. The smaller Powers alone have up to the present been really on the side of the League—notably the Scandinavian countries. If one great Power would throw its weight on the side of these smaller countries, and insist on having questions thrashed out openly in the League itself instead of in hole-and-corner meetings of diplomats representing the great Powers alone, the atmosphere of international relations could be speedily changed, and the League turned into a real instrument for the prevention of wars and the settlement of disputes in accordance with a developing code of international justice. The economic aspect of the question is above all its effect on the prospects of disarmament. At present, Great Britain is among the chief obstacles to any effective handling of this problem by the League. A change of attitude on her part would make a decisive difference. In its national aspect, this problem of armaments is discussed again in a later chapter; and it is urged that we ought not to wait for the agreement of other nations before pressing on with substantial disarmament measures of our own.

That aspect of the League which is concerned with international labour questions has been discussed in a previous chapter. A Labour Government, however, in addition to using all its influence in order to strengthen the International Labour Organisation and extend the scope of its work, would need to throw its weight on the side of more energetic economic action



by the League itself. The International Economic Conference of 1927 was designed as a first step towards closer co-operation in economic matters, especially among the European States. It aimed at a lowering of tariff barriers and the abandonment of a policy of discrimination based on national hostilities, at a more uniform classification of goods for the purposes of customs taxation, at the simplification of through railway facilities, and at numerous other reforms calculated to make trade between the countries of Europe easier than it has been at any time since the outbreak of war. But its practical results have been disappointing. No big Conference, in fact, will by itself achieve much, unless its work is systematically followed up. The League of Nations possesses an Economic Committee already; but either this body should be greatly strengthened and equipped with a secretariat and other resources equal to those of the International Labour Organisation, or the functions of the I.L.O. should be extended so as to cover all economic questions coming within the purview of the League. International unity is most likely to grow if it is firmly based on economic unity; and the ultimate success of the League depends on its developing an international economic policy carrying real weight among the nations of the world.

The need for such a policy is clearly emphasised by the rapid growth in recent years of international capitalist combinations and arrangements. The well-known international steel agreement is only one instance of a new type of world combination which is certain to grow. Just as, within each country, capitalist producers are combining in order to regulate output and prices, so the problems created by competition in world markets are leading to similar combines on an international scale. In the case of steel, Great Britain is at present outside the international arrangement; but in other trades British producers have taken the lead. This is the case, for example, in the European Rail-makers' Association and in the agreement recently concluded between the British and American manufacturers of tin-plates. Again, in the case of oil, we have recently had an example of the enormous power that rests in the hands of a few powerful combines, headed by the 'Standard' and the 'Royal Dutch-Shell', which are in a position to dominate the world market. Some of these international bodies aim at the direct regulation of

prices and output, while others confine themselves to agreements for the delimitation of markets in order to eliminate international price-competition. Whatever their methods, their existence evidently presents problems which cannot be satisfactorily solved along national lines. The forces which are leading to capitalist combines transcending national frontiers must also lead, in time, to international action by the States of the world for the proper regulation of these combines and of the movements of world production and trade.

So ambitious a plan will not be realised to-day or to-morrow. But it is of vital importance that we should begin at once to build up international economic bodies, linking together the States of the world, and able both to supply accurate information concerning economic events and movements in all countries, and to experiment boldly in international economic regulation. With this object, the British Government should aim, not merely at getting a new International Economic Conference together and strengthening the Economic Committee of the League, but above all at putting the economic work of the League on a secure and permanent basis, and at equipping it with a proper organisation calculated to inspire respect.

Great Britain is fortunate in that her economic interests lie above all in raising the standard of life throughout the world. Even a small progressive rise in the standards of the people in Russia, India, China, and Africa would go far towards solving for generations to come the problem of British export trade. For British manufacturers need, above all, buyers who can afford to buy the best types of goods. Again, in Western Europe, the higher the standard of life among the workers can be made, the easier will it be to raise wages and improve conditions in this country. Always and everywhere, Great Britain's interest is that the rest of the world should be as prosperous as possible, and that its prosperity should be based on a rising standard of working-class life.

This should make it easy for a British Government to pursue an enlightened foreign policy. Capitalist Governments have failed to do this, partly out of sheer stupidity, and partly because they have been guided by the wishes of sectional groups in this country whose interests do not coincide with those of the people as a whole. The Lancashire cotton manufacturer, if he

has any sense, devoutly wishes for a rise in the wages paid in India, China, Japan, and the Southern States of America, both because this will remove unfair competition, and because it will improve the demand for his own products. But the British shareholder in the mills of Calcutta or Shanghai holds quite a different view. His interest is not in the prosperity of Lancashire, but in the magnitude of the profits that can be drawn from the exploitation of native labour. And, in a country which has been long a great exporter of capital, the overseas investor is a considerable political personage, and liable to influence political policy even more than the home manufacturer. This is the more likely to happen because the home manufacturer often fails to understand where his own interest lies, and acquiesces in a foreign policy which makes the way easy for unfair competition based on underpaid native labour. Unreasoning belief in letting things alone often becomes the means whereby the most nefarious foreign economic policies are able to be pursued without hindrance.

Evidently, as Great Britain has an interest in the improvement of the standard of life in both China and Russia—two vitally important markets for British goods—she ought to give both these countries every possible help in finding their economic feet. Full recognition of the Soviet Union is too obvious a first step to need discussion; but it is also clear that every effort should be made, by giving the necessary credits, to enable Russia to produce more abundantly, and thus to become a readier purchaser of British goods. The Russian demand, once it can be stimulated, will be largely for machinery, locomotives, and other manufactured goods which we are in an excellent position to supply. Doubtless, Russian needs will continue to be supplied in part by Germany, which is her near neighbour, and by the United States. But there is abundant room in the Russian market for vast quantities of British goods as well; and in return we can find in European and Asiatic Russia a source of valuable raw materials for the use of our manufacturing industries, as well as of foodstuffs. Russia is grossly undercultivated to-day; but she has in her the possibilities of tremendous economic expansion, and it is wholly to our interest that these possibilities should be speedily realised, and with our help.

In China, the problem is for the moment mainly that of

aiding the national forces which are trying to bring the country under some sort of stable and unified government. The victory of the Kuomintang is still precarious; and their chance of unifying the country and of introducing conditions which will help its economic development depends largely on the help given them by the outside world. With Japan hostile and menacing, Great Britain is clearly in the best position for taking the lead; and a Labour Government would need to grapple boldly with the situation by a surrender of unequal treaties based on the assumption of China's incapacity to govern herself, and the negotiation of new arrangements based on the assumption of equality. Such a policy of course involves risks; for the new regime in China may yet crumble. But, both in the broad interests of the world and in the narrow interest of British trade, the risks are well worth taking.

I am very conscious that this chapter is both inadequate and scrappy. My excuse must be that it is very difficult to deal with the immediate questions of imperial and foreign economic policy without at the same time considering the political issues with which they are bound up. Politics and economics do not live in separate worlds, but are at bottom only two aspects of one and the same problem. I have, however, resisted the temptation to travel outside the narrow field of immediately practical suggestions for government action in the international economic sphere, both because I feel no special competence in dealing with the wider issues of international policy, and because this book is already bound to be quite long enough.<sup>1</sup>

In particular, I know, this chapter has not brought out the

<sup>1</sup> This does not mean that foreign affairs seem to me less important than the matters of which I have written at length in this book. Indeed, the possibility of bringing a constructive domestic policy to a successful issue during the next ten years is bound to depend largely on a right handling of international problems. It is clear, for example, that the financial proposals contained in later chapters of this book might have to be drastically reconstructed if the Government failed to follow a policy of disarmament based on the courageous pursuit of international peace, and the strengthening of the League of Nations as a means to its assurance. I am thus fully conscious of the vital importance of foreign policy. But I have refrained from writing about it, except on points essential to the purely economic argument of my book, because, having only a layman's acquaintance with the subject, I feel that, outside the narrowly economic sphere, I should be likely to write badly and unhelpfully if I attempted to write at all.

fact, admitted by all competent observers, that Imperialism, above all Economic Imperialism, is in the modern world by far the most fruitful cause of wars. And clearly war, if we allow it to break out, is likely to wreck any national economic policy on which we may embark, however successful we, as a nation, may have been in applying it. Even if we were able to keep out of the actual conflict, we should suffer inevitably from its effects; for any temporary economic benefit we might derive from the needs of the combatants for supplies would be far more than offset by the dislocation of the world's economic life which war would inevitably cause in the ensuing years. Still more would a war in which Great Britain itself became engaged be clearly fatal to the economic policy outlined in this book. We shall have a hard enough struggle to put our economic system straight after the havoc of the last war. We should have much ado, under any Government, to survive at all, as a prosperous nation, the disaster of another.

It behoves us to be ever mindful of this fact in considering the affairs of the British Empire, and our place, and the Empire's place, in the world as a whole. For we have to remember that the British Empire, even if it were well governed with a due regard to the welfare of the subject-races included in it, and were genuinely seeking to advance their interests and foster their progress towards real self-government, would be still, from the standpoint of other nations, a constant provocation to attempt the building of rival Empires of their own. We cannot straddle, as we do, across the earth's surface without provoking jealousies and at least some spirit of Imperialist rivalry. We cannot help this altogether; and just because we cannot help it we ought to be doubly discreet and scrupulous in the use of the power which we possess. This power, we have to recognise, has been built up largely on sheer robbery and wrongful annexation. We have no shadow of right to the territories which we hold; and, while we must go on holding most of them, we are bound both in honour and in the interest of civilisation to do our best to promote restitution of what we have taken to its rightful possessors—the inhabitants of the countries under our rule. We cannot evacuate our colonies and protectorates; but we can so use them as to give other nations the least possible ground for hating or envying our authority, or for desiring to build up subject

Empires of their own. This clearly implies that we have no right to attempt to derive from any of our Colonies or Protectorates, either by customs discrimination or by concession-hunting or by any other means, any economic advantage that is not left open on equal terms to the citizens of other States.

All this, I am aware, sounds somewhat priggish. It will appear to sympathisers with the Communist position, and perhaps to many foreigners, a clear case of the traditional British hypocrisy. The Communists, and some others who have little sympathy with them in other respects, hold that all Empire is so dangerous to the welfare of the world, and so certain to lead to indefensible forms of capitalist exploitation, that the greatest task of the coming generation is to smash not merely Imperialism, but the Empires which give rise to it. I do not agree with this view. Merely as a smashing blow at Jingoism and the war-spirit, I should dearly like to see the British Empire, and all other Empires, broken in pieces.<sup>1</sup> But there are other things besides this to be considered. The world needs not less but more economic and political co-operation; and there is, in the relations between Great Britain and the self-governing Dominions, no relationship that in any way menaces the world's peace. This cannot be said of that part of the British Empire which is not self-governing; but in this case, too, the deliberate smashing-up of the imperial connection seems to me to offer no prospect of gain at all comparable with the inevitable turmoils and dislocations to which it would give rise. Imperialism is doubtless the enemy; but it is not to be fought by the simple method of Empire-smashing, but rather by a change of policy on the part of the States which are the present controllers of Empires. This change needs to be drastic in the extreme, and it will be very difficult to carry out, even with a strong and determined Labour Government in power. But it alone offers a real hope of forwarding in the world as a whole the creation of that international unity—economic even more than political—which is the present's greatest need.

<sup>1</sup> Before yielding to this instinctive reaction, it is necessary to bear in mind that the little 'nationalisms' that would result from such a collapse would probably be even more warlike and jingoistic, and certainly quite as unpleasant.

## CHAPTER XV

### LOCAL GOVERNMENT

Four reasons for the breakdown of the British system of Local Government—Changes in the distribution of population—The unsoundness of local rates—The reactions of unemployment—The development of road transport—The Conservative De-rating scheme considered—Its effects on local finances—Block *versus* percentage grants—The reform of the Poor Law—Highway administration—The case against the de-rating proposals—Unfairness to householders and traders—De-rating virtually a subsidy—Not needed by prosperous industries—The new Government grant scheme unfair in its effects—Block grants an instrument of reaction—The future of the Poor Law—A half-hearted reform—Unemployment and the Poor Law—Roads and the Road Fund—Further reforms of the rating system—The case for a combination of block and percentage grants—The redistribution of Poor Law functions—The problem of powers—Wanted: a Local Authorities Enabling Act—The future of municipal trading—The problem of areas—Town and country in Local Government—Housing problems—Town-planning and region-planning—The government of London—The case for Regionalism—First steps towards regional organisation—Electricity and region-planning—The classification of urban areas—The reform of local finance—The District Auditor and his powers—The growth of central control—Need for administrative devolution—The future of regional government.

THE British system of local government, which even before the War was admitted to stand sorely in need of amendment, has during the past ten years been steadily breaking down. For this there are four main causes, each in itself important enough to make necessary a drastic revision of the system. In the first place, the existing areas of local government are obviously, for many purposes, obsolete. Since they were adopted, the effective configuration of the country has radically changed. Population has become far more concentrated in and around large urban areas; the ease of communication has greatly increased; changes in industrial technique have made larger units of production and service indispensable in many of the vital

public utility undertakings; and the ability to meet the costs of local administration has been decisively altered as between locality and locality. The result is that the present areas are often unsatisfactory in almost every possible way; and it has been necessary, in the absence of thorough reform, to meet the situation by all manner of expedients, such as the creation of joint committees and the adoption, as in London, of special devices for the greater equalisation of financial burdens.

Secondly, apart from the inequalities between areas, the unsoundness of the existing forms of local taxation has become increasingly obvious. Local rates were always a bad tax, failing to correspond to any principle of either service received or ability to pay, and pressing heavily on producers and shopkeepers, while letting others—for example, business men who were able to do a big business in a small office—escape far too lightly in comparison. These inequalities were not very seriously regarded by politicians as long as trade and industry were prosperous and the rates levied on productive and commercial enterprises were not generally felt as a serious burden. But since the War they have become increasingly burdensome to firms which have been struggling hard to make both ends meet. A rate levied on a business concern falls not on profits but on trading expenses. It is an addition to the cost of producing goods, which has to be met whether a profit is realised or not, and irrespective of the amount of profit. It is therefore felt especially by businesses near the margin of production, to which it may just make the difference between solvency and loss. The depression in most of our leading industries having reduced far more firms temporarily to this condition, there has been strong pressure to keep the rates down, and a growing demand for a drastic revision of the entire basis of local finance and the discovery of some alternative source or sources of local revenue less objectionable than the rates.

Thirdly, this situation has been immensely worsened by the heavy unemployment of recent years. Despite the transference of a part of the cost of maintaining the unemployed to the unemployment insurance scheme, a severe burden has fallen on the local rates through the Poor Law, and this burden has been by far greatest in the areas which have the least ability to meet it. When local industries are depressed, the effect is at once to increase the charges falling on the Poor Law for the relief of



the unemployed, and to diminish the effective taxable capacity out of which these charges have to be met. The poorer the area, the greater the need: the greater the need, the less the resources. The result of this situation has been that many areas, even after cutting down their services to the bare minimum, have had to borrow heavily in order to meet current expenditure; and that in some, especially in the depressed colliery districts, local government has practically broken down. Another result, no less unsatisfactory, has been that the amount of relief secured by the unemployed has varied widely from place to place, according both to the political complexion of the local Board of Guardians or the pressure applied to it by various contending interests, and to the ability of the district to raise the money needed for relief.

Fourthly, the development of road transport has radically altered the use made of the roads. Long ago it was recognised as unfair to impose on small rural areas the cost of maintaining main roads used principally for through traffic, and this responsibility was transferred to the larger area of the county. Then, through the Road Fund, grants were made available from the centre for capital expenditure on the improvement of main roads. But the inadequacy of these measures has now become evident. The motor-bus, the char-a-banc, and the touring car tear up the country lane as well as the main road, and make it hardly less inappropriate to impose the cost of maintaining the former upon the small local authorities. The development even of the main highways lags behind the rapid growth of passenger and goods transport by road, and makes an extensive national scheme of highway improvement imperative. The whole system for the making and maintenance of roads of all sorts obviously needs complete reconsideration; and this involves important changes in the structure of local government.

I have singled out these four causes of the present impasse in the British system of local government, not because they are the only causes, but because they are four causes of collapse the existence of which practically everyone will be ready to admit. Some other causes, hardly less important, will emerge in the course of this chapter; but these four will serve amply as the justification for a thorough amendment of the existing system.

Any attempt to suggest the proper course for an incoming

Government to adopt in reshaping the system is, however, made very difficult by the ambiguous situation which exists as I write. The Conservative Government has brought forward its complicated plan for the de-rating of agricultural, industrial, and transport undertakings; for the revision of the methods of grant aid to local authorities; for the partial break-up of the Poor Law by its transference to the County and County Borough Councils; and for a drastic redistribution of functions between the County Councils and the lesser authorities within the county area. These proposals are at this moment before Parliament, and their fate cannot therefore be safely predicted, or the form in which they will ultimately emerge as an Act of Parliament be known in advance. It is impossible to say precisely what will be the situation in local government when a new Government assumes office; and yet the action which such a Government will need to take obviously depends upon this situation.

The only possible course is to make assumptions which may possibly turn out to be wrong. After some preliminary discussion of the present Government's scheme of reform, I shall therefore assume that the scheme, in its main features, will have become law when a Labour Government assumes office with a majority behind it.

The Baldwin Government's scheme of reform is a highly ingenious amalgamation of a number of quite distinct and unconnected proposals. It is, in the first place, a scheme for the reorganisation of local government finance. Local rates, as we have seen, are burdensome to the producer, in both agriculture and industry; and therefore it is proposed to relieve the agriculturist of the entire burden, and the industrial producer and transport undertaker of three-quarters of it. But the weight thus removed from the producer's shoulders clearly cannot be transferred to the remaining rate-payers. Indeed, some of these, notably the shopkeepers, have on the face of it quite as good a claim to exemption as the farmer and the manufacturer. Their claim is passed over; but the declared intention is that their burdens should not be increased by the change. The National Exchequer, it is said, is to assume the liability which is removed from the farmers and industrialists, and the local authorities are to be recouped for their lost revenue by an increased grant-in-aid.

They are not, however, to receive precisely the sum lost. Advantage is taken of the de-rating plan to alter the entire basis of local finance in respect of some of the most important public services. The assigned revenues paid through the Local Taxation Account are to be swept away, together with the special grants under the Agricultural Rates Acts. The percentage grants hitherto paid for the health services—maternity and child welfare, mental deficiency, tuberculosis, etc.—are to disappear. The special grants for classified roads are to be merged in the general grant system. And, in place of all these sums, a new block grant is to be made, based on a highly complicated formula which is to govern the allocation to each particular local authority of its share in a total grant the amount of which is to be open to revision every five years. The new scheme is to come into force in 1930; but there are highly complicated arrangements for the adjustment of grants during a prolonged period of transition. The new formula is only to be brought into operation gradually; and in the meantime the local authorities' claims are to be judged in part by what they have actually been receiving in grant aid under the old system.

What this change broadly means is that, over a wide range of local services, the Baldwin Government proposes to substitute block for percentage grants. Whereas local authorities are now aided largely by the grant of a fixed percentage of their approved expenditure, they are in future to receive a fixed sum from the Exchequer, and anything they spend over this sum they will have to find themselves. The block grant will, indeed, be periodically revised; but within each period of years it will be a fixed amount, and any expansion of costs or services will have to be met entirely from local funds. The Treasury, it is well known, has long desired to make this substitution; and the notorious Meston Committee on grants-in-aid was appointed in the hope that it would recommend the change. When it became clear that the majority of the Committee was hostile, the Chairman, Lord Meston, refused to call it together, and it has never reported to this day. The Treasury, unable to secure a report in favour of its plan, now proposes to carry it through by tacking it on to the scheme for the de-rating of agricultural and industrial properties. The educationists, however, who have throughout put up a stiff fight against attempts to impose the block grant system, have

secured for the time exemption from the change; and by far the greater part of the public education grants will continue for the present to be paid on the percentage system. The police grants are also, for other reasons, to continue on a percentage basis.

Thirdly, the Government scheme embodies, in a somewhat half-hearted and ambiguous form, a long-overdue reform of the Poor Law. It is now nearly twenty years since the Royal Commission on the Poor Laws made its famous reports; and ever since then most sensible people have agreed that the right course is to sweep away the Boards of Guardians altogether, and to transfer such of their functions as are not taken over directly by the State and placed under some form of national administration to the ordinary local authorities which deal with other public health and similar services. This the Government, in form at any rate, now proposes to do, putting the whole of the present Poor Law services into the hands of the County and County Borough Councils, and thus at once destroying the *ad hoc* bodies created in 1834 and in most cases greatly enlarging the areas of responsible administration. This, however, does not, according to the Government scheme, involve that complete 'break-up of the Poor Law' for which the reformers have long contended; for it is proposed that each County and County Borough Council should form a new committee to take the place of the Guardians, and it will be fully possible for these new bodies, if they are so minded, to carry on the forms and traditions of the old Poor Law practically unchanged. The local authorities will, indeed, have the power to amalgamate any Poor Law service transferred to them with any similar or cognate services controlled by one of their existing committees, and thus to carry the actual break-up of the Poor Law as far as they desire. But they will be under no compulsion to do this: they will be able, if they prefer, to keep the Poor Law in separate existence, and to maintain the invidious and irrational distinction between the pauper receiving poor relief from the public and the self-respecting citizen who receives treatment in a municipally owned hospital or any form of public help not regarded as subject to the 'pauper taint'. The larger local authorities, to which responsibility for the Poor Law services is to be transferred, are, moreover, to be allowed, if they so desire, to delegate some of their new functions to appointed committees operating over

smaller areas; and, somewhat ominously, these are to be known by the name of 'Guardians Committees'.<sup>1</sup> But, while the 'abolition of the Poor Law', so long demanded by reformers, is by no means completely secured by the Government scheme, it is at any rate provided that the Boards of Guardians, as independent authorities, are to go, and that the Poor Law system is to be financially unified with the other services of local government.

Fourthly, highway administration is to be completely remodelled, and the County Council, instead of the Rural District Council, is to become responsible for all rural roads as well as for the main roads already under its control. Classified roads in boroughs (except county boroughs) and urban districts are also to be taken over by the counties. The boroughs and urban districts will continue to be responsible for urban streets, and the county boroughs for all roads in their areas; but otherwise road administration is to be placed wholly in the hands of the County Councils, which are, however, to be given power in part to delegate their duties to the smaller authorities within their areas.

This elaborate and many-sided scheme of reform is open to numerous objections. There is a strong case, if alternative means of financing local services can be found, for the abolition of local rates and the substitution of other forms of local revenue; and there is an overwhelming case for reducing them to a figure at which they become less burdensome by meeting the greater part of local expenditure from other sources. But this is a very different matter from relieving farmers and manufacturers of the greater part of their rates, while leaving shopkeepers, institutions, and private residents subject to the full burden. Rates are hardly more fair in their incidence on the latter classes than on the former; and it will certainly be a gross act of impolicy and injustice if the rates of private residents and shopkeepers are made to bear the full weight of the expansion of local services. The Baldwin Government justifies its plan as a means of giving relief to depressed industries—in other words, as a form of subsidy to productive undertakings. But, in the first place, the relief is given equally to industries whether they are depressed or not—the prosperous motor-manufacturer or artificial silk-maker is to get fully as much benefit as the coal-owner or the master cotton-

<sup>1</sup> In the county areas.

spinner; and, in the second place, the method of subsidising industries at the expense of the tax-payer and the other rate-payers is highly objectionable in principle. The depressed industries could be helped far more economically and with far less dangerous results in the other ways that have been suggested earlier in this book. Rates are admittedly a bad kind of tax; but that is a reason for remitting or drastically reducing them generally for all rate-payers and not for certain specially selected classes. It is, moreover, confusing and illogical to mix up the two quite distinct questions of reforming the rating system and helping the depressed industries.

But, it may be said, the burdens removed from the shoulders of the de-rated enterprises are to be assumed, not by the other rate-payers, but by the State. This is true to a great extent in the first instance; but there is no guarantee that it will remain true beyond the first few years' working of the scheme, or even to the end of the first period of the transition. This would be true even if the percentage grant system were to be retained; for the State reserves full power to fix the total amount of compensation to be given for loss of rates after the interim period, and, during this period, any expansion of local services will evidently entail an increased burden on the reduced body of rate-payers. Still more is this the case if block grants are to be substituted for percentage grants; for this means that the whole cost of expansion will fall upon those who are still liable to pay local rates. Moreover, the Government's proposals for the distribution of grants during the period of transition involve a further grave injustice to the depressed areas. They are based on compensating the authorities, subject to certain adjustments, for the loss of revenue which the de-rating of agricultural and industrial hereditaments will entail. But, in the depressed areas, the rateable value of these undertakings has already been reduced by the slump, with the result that the revenue obtained or obtainable from them for local purposes has seriously fallen off. These local authorities will accordingly receive the less compensation from the Government, whereas the more prosperous areas will receive more. This, to say the least of it, appears to be a very singular result of a plan put forward ostensibly with the main object of relieving the necessities of the depressed areas.

The substitution of the block grant for the percentage grant

is one of the most serious features of the new scheme. Under the percentage system, a forward authority which devotes itself to the improvement and expansion of local services gets, in most cases, roughly half its expenditure refunded by the Exchequer. It is thus encouraged to improve the quality of local government, and to do more than the bare minimum required of it under Acts of Parliament as its statutory duty. The block grant system, on the other hand, is definitely calculated to discourage local expenditure. The local authority receives a fixed sum, however much or little it does, and all it spends over and above this sum falls on the local rate-payers (now to be reduced in numbers and ability to pay). The reactionary local authority will obviously be disposed barely to fulfil its statutory duties, and to live as far as possible on the block grant; while even the progressive authority, in face of the reduced area of taxation open to it, will be very chary of incurring avoidable expenditure falling wholly on the rates.

This, doubtless, is precisely what Mr. Baldwin's Government desires. Its scheme is, above all, a scheme for the curbing of local expenditure—the latest of the 'economy stunts' launched against the local authorities since the war. The motive behind it is partly Conservative hostility to the development of social services on generous lines, and partly Treasury opposition to local taxation as a rival to the claims of the Chancellor of the Exchequer. More and more, of late years, the Treasury has looked with jealous eyes both on the expansion of local rates and on the use of borrowing powers by the local authorities—on the ground that both tap resources which might otherwise be available for the Exchequer. Thus, the permanent officials at the Treasury unite with Conservative reactionaries in an attempt to impose the block grant system as a means of enforcing 'economy' on the local authorities. They would apply the same system to education if they dared; and doubtless they will try to apply it, having got in the thin end of the wedge, if the present Government returns to power.

As steps towards the reform of the ordinary Poor Law, the Government proposals make in the right direction. The Boards of Guardians ought to be abolished and their normal functions transferred to the Counties and County Boroughs. But even in this matter the Government has advisedly left, as we have seen,

a number of dangerous loopholes in its scheme, by leaving the local authorities free, instead of breaking up the Poor Law altogether, to retain its character and taint by establishing Poor Law Committees and carrying on the administration of poor relief in the old bad way. It is necessary, not merely to make the administration of the Poor Law a duty of the County or County Borough Council, but to ensure by legislation the complete distribution of its functions, with other related functions now in the Council's hands, among committees combining Poor Law with other duties, in such a way as completely to destroy the identity of the Poor Law system and eradicate its taint. That the present scheme does not do this is a sign that dangerous concessions are likely to be made to those who desire to keep the taint and to administer the necessary services in a C.O.S. spirit of moral discipline for the destitute.

There is an even greater objection to the scheme as it stands. Normal Poor Law functions ought to be transferred to the Counties and County Boroughs. But the Poor Law at present is not normal. The greater part of present Poor Law activity and expenditure is given to the relief of the unemployed and their dependents—functions as inappropriate for a County or County Borough Council as for a Board of Guardians. It is surely clear both that the granting of relief to able-bodied persons who cannot find work ought not to be placed in the hands of locally-elected representatives, and that the cost of dealing with the unemployed ought to be borne nationally and not locally. The amount and character of the relief given ought not to vary according to the political complexion, openness to intimidation from either side, or ability to find the money, of a locally-elected body; and the cost of maintaining the unemployed ought not to fall in such a way as to impose the greatest liability on the areas that have the least resources available. Yet these are clearly the results of allowing the relief of the able-bodied unemployed and their dependents to remain a local service; and they are in no way cured by its transference from Guardians to Councils. The effect of the proposed change is, no doubt, to enlarge in most cases the areas over which the poor law charges will be spread. But the County and the County Borough are hardly more appropriate areas, from the standpoint of equalising burdens in relation to ability to pay, than the existing Unions



of parishes. For there are whole Counties, such as Durham and Glamorgan, which are seriously depressed and quite unable to shoulder the financial burdens to be imposed upon them under the new scheme. No area smaller than the country as a whole is large enough to bear the cost of unemployment on an equitable basis.

The highway proposals included in the Government scheme are the feature in it least open to objection. The percentage grants in respect of classified roads are to be retained; and, while other road grants are to be merged in the new block grants, this is an objection rather to the financial part of the scheme than to the proposed changes in highway administration. It will be possible, even if the scheme goes through, to extend the system of percentage and special grants so as to provide for the much-needed development of a really efficient national road system. The main objections to this part of the scheme are financial. The cessation of certain special grants in aid of highway expenditure, and the 'raiding' of the Road Fund in order to provide part of the nominally 'new money' provided by the Exchequer under the scheme, are obviously indefensible.

Bad as the scheme is in most of its leading features, it is safest to assume that it will pass into law, and that a new Government, on assuming office, will be faced with it as an accomplished fact. What will then be the best course to adopt? Mere repeal will be out of the question; for changes of this sort cannot be simply revoked when once they have been put into operation. The new Government will have to do its best to mend the faulty foundations laid by its predecessor, and to develop out of them a more satisfactory plan of local government reform.

The first problem, clearly, is that of de-rating. It will be neither wise nor practicable to attempt to re-impose on farmers and industrialists the rates which the Conservative Government has taken off. But it will be no less impolitic and wrong to leave the remaining rate-payers subject to the unfair and disproportionate burdens that will have been placed upon them. It will therefore be necessary to find means of generalising for all rate-payers an amount of relief equivalent to that accorded by the present Government to a restricted group. This means the finding of an alternative source of local revenue large enough to

replace the greater part of the sum now raised in rates. As I have indicated in a previous chapter, the taxation of land values furnishes the first and most obvious answer to this problem. The revenue from this source will not need wholly to replace the sums now raised by means of rates; but it will need to be sufficient to enable a remission corresponding to that given to industrialists to be accorded to other classes of rate-payers. Of course, when all rate-payers (except agriculturists) are taxed on only 25 per cent of the annual value of their properties, this will amount to the same thing as if they were taxed on 100 per cent at a lower rate in the pound. What it will in effect be necessary to do will be to give the industrialists the assurance that, for a period of years, they will not under the new system have to pay more in rates than they would have paid under the old.

The next problem arises out of the system of block grants. We have seen that whereas the percentage system encourages progressive authorities, the block system is designed to check local expenditure and to keep local services down to the minimum. But the percentage system has a disadvantage of its own, in that an area which is too poor to develop effective services even with the aid of the grant is penalised for its poverty by receiving less than its richer neighbours. The remedy lies in a combination of the two forms of grant. A Labour Government will be able to retain the block grants introduced by its predecessor *as minima*, and to add to them percentage grants on approved expenditure by local authorities in excess of the minimum. Thus, on the fifty-fifty basis, if a local authority receives £50,000 in block grant and its approved expenditure is £110,000, the extra £10,000 will rank for a percentage grant of £5,000. This grant would, of course, as at present, be payable only in respect of expenditure approved under regulations by the central authority.

The question of the Poor Law has already been dealt with, as far as it relates to the unemployed and their dependents, in an earlier chapter of this book. The extension of State provision for the unemployed and the institution of the National Labour Corps will remove the need for any concern of the Poor Law with the able-bodied unemployed, save in purely temporary and exceptional circumstances. It will, therefore, only be necessary to complete the present scheme of reform by insisting on the

complete administrative distribution of Poor Law functions among the appropriate committees of the County and County Borough Councils, and to raise the standard of provision for certain classes of the non-able-bodied poor—notably the mentally deficient, for whom improved institutional facilities are already long overdue.

So much for the Chamberlain-Churchill scheme. But this scheme, it is evident, covers but a small part of the necessary field of local government reform. When both it and the amendments in it suggested for adoption by a Labour Government have been carried into effect, our system of local administration will remain, in many respects, grossly deficient in face of modern needs. Its remaining defects will centre mainly round two problems—the problem of powers and the problem of areas and units of administration.

The problem of powers is by far the easier to tackle, and should be taken in hand by a Labour Government early in its career. At present, the powers of local authorities are strictly bounded by statute. Certain things they are compelled by law to do; and these form the irreducible minimum of local government functions. Certain other things they are allowed to do by statute—a general power having been accorded to all local bodies of the appropriate type, but without any obligation on a particular authority to make use of the power. Certain other things they can get power to do by a comparatively simple procedure of sanction by departmental order. Others they can be authorised to do only by the far more difficult method of a provisional order needing parliamentary sanction—a procedure which, if the order is opposed, offers almost as many difficulties as a special Act. Yet other things—and among these are the great majority of trading services—they can undertake only by getting a special Act of Parliament conferring the necessary powers. This is costly at the best of times, and involves long delays; and, in face of the hostility of the majority in past Parliaments to the growth of 'municipal Socialism', there is usually a very big risk that any local authority which proposes to embark on a new trading enterprise will get its Bill thrown out by Parliament.

A Parliament in which Labour representatives were in a majority would, of course, tend to look with favour on the growth of municipal enterprise. But private bill legislation would

remain, even so, a most unsatisfactory method of arming local authorities with the powers needed for their expansion in view of modern needs. Recognising this, the Labour Party has, for years past, regularly put forward a 'Local Authorities (Enabling) Bill', designed to allow any appropriate local authority, subject to a simple procedure of sanction, to embark on any trading service needed by its citizens. The most comprehensive proposal with this object is that the trading powers of local authorities should be assimilated to those of joint-stock companies under the Companies Acts. A joint-stock company may embark on any lawful activity, provided only that this activity falls within the scope of its functions as laid down in its Memorandum of Association. The problem of the local authorities can hardly be settled so simply; for two authorities—say a County Council and an Urban District Council—operating within the same area could hardly be allowed to compete with each other in providing the same service. But there is every reason why the power of local authorities to conduct trading services should be greatly extended, and the necessity for private bill legislation, save in cases where special powers are needed, entirely swept away. The remedy seems to lie in the constitution of a statutory board or commission, empowered to grant any request by an appropriate local authority for extended trading powers, and instructed to refuse such requests only on certain clearly defined grounds. Such grounds might be (1) the inappropriateness of the particular authority, because of the limitations of its area, or the existence in the same area of a more suitable authority, for the conduct of the particular service; (2) the fact that the service had already been undertaken—or that power had been granted to undertake it—by a local authority operating over the same area; (3) the existence of a statutory company for the sole conduct of the service within the area. In this last case, the commission might have power to authorise the compulsory acquisition of the company by the local authority, and the existing laws relating to the municipal purchase of private undertakings would need amendment in order to confer this power.

Usually the undertaking by a local authority of a new trading service involves considerable capital expenditure, and, therefore, the raising of a loan. The power to raise loans is at present governed by numerous enactments dealing with particular

services, and also by local Acts giving special powers. If the foregoing proposals, enabling local authorities to embark more freely on new trading services, were adopted, their power to borrow money would need to be regulated by the National Investment Board and its subsidiary bodies in the same way as that of private enterprises desiring to raise fresh capital. Probably the best way of arranging for this sanction would be by linking up closely with the National Investment Board the special commission responsible for authorising new municipal undertakings, and giving this body, subject to the final control of the Board, the power to authorise new municipal loans. The capital could then be provided either by the issue of a special municipal loan under State sanction, or by the lending of the required sum by the State out of the Local Loans Fund.

Even if very wide powers were given to local authorities to acquire privately owned undertakings and to embark on new trading enterprises of their own, it is unlikely that there would be at present any great outburst of municipal trading activity. Special measures taken by a Labour Government might result in the spread of municipal banking and municipal or co-operative supply of milk and coal; and the acquisition of private concerns in the electric supply and one or two other services might be speeded up. It is also practically certain that there would be a rapid growth of municipal 'bus services, mainly in connection with existing publicly owned tramways. Municipal housing departments and joint supply agencies would probably grow; and it is likely that at least some local authorities would begin to experiment, singly or jointly, in doing their own printing and setting up other productive establishments designed mainly to supply their own needs. But apart from this, it is practically certain that the extension of municipal trading would be relatively slow, partly because some local authorities would still be hostile, but more because most would for some time have their hands full with other developments in the locally administered social services. No reckless plunge of numerous local authorities into a wide variety of trading enterprises is in the least likely to occur, whatever policy future Governments may adopt in enlarging their powers.

One reason for this is that the existing areas of local government are in many cases unsuited to the development of a large

mass of trading activities. The local authority, save by special arrangement with its neighbours, can conduct services only within its own area; and this is in many cases too small to form, under modern conditions, an efficient productive unit. The generation, as distinct from the retail distribution, of electrical power, for example, is tending to fall into private hands partly because few local authorities cover a sufficient area to enable them to generate electricity on the most economical scale. The best units for production or service increasingly fail to coincide with the existing areas of local administration, with the result that local authorities are apt to be deterred by sound economic considerations from taking fresh trading activities into their hands. The extension of the scope of local government activities is closely bound up with the reform of areas in the light of modern conditions of production, transport, and grouping of population. The problem of powers thus directly leads on to the problem of areas.

Modern local government, in the hands of elected representatives of the inhabitants, began mainly in the towns, with the creation of special statutory authorities for lighting and watching and similar indispensable urban services. The municipal corporations were reformed in 1835: urban health authorities began to be widely developed from 1848, and became universal in 1872. In the rural areas, though the Boards of Guardians created in 1834 had fresh duties imposed upon them at various dates, the development of representative local government lagged behind. County administration was not transferred from the justices of the peace to elective County Councils until 1888, and the structure of rural local government—county, rural district, and parish, each with its elective council—was not completed until 1894.

This late development of county and rural government has left its mark on our local institutions. The tendency has been for urban areas, as fast as they have become strong enough to do so, to cut themselves away from the surrounding rural areas, and become independent authorities separate in many respects from the rest of the county in which they lie. The County Boroughs created in 1888 are in all respects administratively outside the government of the counties in which they are situated; and their councils possess all the powers of county

authorities. Even the lesser municipal boroughs and the urban districts are to a considerable extent independent of the counties, and jealous of county intervention in their affairs. Latterly, indeed, an opposite tendency has made its appearance, and many new powers have been conferred upon the counties and county boroughs to the exclusion of the lesser authorities. But it still remains broadly true that British local government is based, for most purposes, on a sharp separation between town and country.

This separation has had increasingly unfortunate results. As industrialisation proceeds and towns continue to grow, new bits of the countryside are constantly becoming urban. Either these new areas set up for themselves as urban districts, and seek, for as many purposes as possible, to emancipate themselves from county control, or the bigger towns, spreading steadily beyond their borders, seek to extend their administrative areas, and bring their growing suburbs within the control of the urban authority. The former tendency results in the multiplication of small urban centres, the latter in the carving of important areas out of the administrative county and their transference to the county boroughs. These areas are normally the richer parts of the county, and the County Council commonly opposes the change, and, when it is in the long run beaten, finds itself left in control of an area badly needing improved local government services, but sorely deficient in the ability to pay for them.

Moreover, the geographical county, even including all the urban centres within its borders, is often a unit which entirely fails to conform to modern realities. Where, as in the cases of Sheffield, Birmingham, Newcastle, Bristol, and Liverpool, great towns are situated on the edge of the counties to which they belong, their influence and expanding population spread over areas which fall within different counties, and therefore cannot be unified by any system of administration based on the county area. Some administrative counties, such as the West Riding of Yorkshire, are very large and populous, while others, such as Rutland and the Isle of Ely, are obviously far too small to form effective units of government for many of the major services. Some, like Lancashire, contain so many county boroughs as to have become mere residues—areas without any real coherence or unity.

The boroughs, on their side, are also in serious difficulty. Seldom can any large town that embarks on a substantial housing scheme reasonably house its expanding population within its own boundaries. It has to build houses outside its own area, and in the area of the surrounding county authorities. Though in some cases joint arrangements have been made between neighbouring districts, or a large authority has acquired the right to operate within its neighbours' borders, there are plenty of cases in which such services as tramways give the public far worse facilities than they could, and cost more to run, simply because they have to stop short at the municipal boundary. The extension of the municipal area is often sought as a partial remedy; but this is usually hard to secure, seldom widens the area of service so as to make it fully efficient, and creates for the county authority problems as grave as those which it solves for the urban community.

At present, the commonest method of dealing with the difficulty is by the insertion in most Acts dealing with local government services of special clauses designed to facilitate joint action between contiguous authorities, or authorising the creation of joint advisory committees. But joint authorities are cumbrous and difficult to operate; and joint advisory committees can act only with the consent of all the bodies concerned, and can therefore seldom get beyond the stage of expressing pious hopes.

Let us take one particular problem as an example of the difficulties which now beset local authorities in many of their fields of work. Town-planning received statutory recognition twenty years ago; and this recognition has been strengthened by subsequent Acts.<sup>1</sup> But it has become more and more obvious that planning, if it is to be effective, must usually be done over an area far wider than that of the town. Whole regions, including not only the central town but also its suburbs and surrounding rural districts, must be coherently planned by a single body, if local amenities are to be preserved and developed and urban growth fostered in the right way. The recognition of this need has led to the creation of numerous joint Town-planning Advisory Committees; and some of these have produced really excellent reports on the harmonious development of the districts

<sup>1</sup> Including the new Local Government Act of 1929.



with which they deal. The report on the town of Doncaster and the new colliery area near it, for example, is a masterpiece of constructive regional planning. But none of these joint committees possesses any real power, or has any means of overriding the decisions of a single local authority which refuses to fall in with concerted plans developed in the interest of the entire area concerned.

Two Royal Commissions have recently been dealing with the vexed question of local government areas. The first, the Royal Commission on London Government which reported a few years ago, practically threw up the sponge in face of the immense complexity of the problems which faced it. The area of the London County Council, adequate enough when London was first unified by the Metropolis Management Act of 1855, now covers only a fraction of the metropolis, and is surrounded on every side by vast suburbs whose inhabitants largely work by day within the L.C.C. area, and use the common services which the L.C.C. provides, but have no control over its doings, and make no contribution to its expenses. In many, though not in all, of these surrounding areas, rates are relatively low; and the inhabitants are therefore in many cases unwilling to be included in a unified authority for Greater London, which would charge them with their share of the common expenses of government, and make them pay a part of the costs of providing for the needs of the poorer areas within the metropolis. Moreover, these suburban areas form a substantial part of the territory, and provide a still larger part of the taxable capacity, of the counties surrounding London; and the County Councils of Essex, Surrey, Middlesex, and the other areas concerned therefore put up a stiff fight against the creation of a unified authority for the greater London of 1929.

These problems, which were altogether too much for the Royal Commission on London Government, are reproduced on a smaller scale in many other parts of the country. In South Lancashire, for example, a vast number of county boroughs, ordinary boroughs, and urban districts, whose boundaries are economically and socially meaningless, jostle one another, and have almost pushed the green fields of the countryside out of view. Manchester and Salford, Newcastle and Gateshead, Brighton and Hove, are in each case virtually single towns,

held apart by a purely arbitrary administrative division. Some towns have succeeded in widening their boundaries so as to include their suburbs, while in others the suburbs are separate administrative districts. Some vast districts of purely urban character have never become boroughs, while some tiny towns, with a venerable history behind them, have even the full status of county boroughs. There is no rhyme or reason about British local government areas and divisions; but it is not at all an easy task to reduce the jumble to order. It is hardly to be supposed that the existing Royal Commission on Local Government Areas is enjoying its job, or to be expected that its Final Report, when it comes, will give clear guidance.

The plain truth is that no detailed straightening out of the present areas of local administration will go far towards solving the problem. The entire economic and social situation has been radically changed in the past generation; and the areas which were suitable enough in 1835 and 1888 are in many ways grotesquely inappropriate to-day. That is why the ideas grouped together as 'Regionalism' are now making rapid headway. The present local government areas are too small in most cases to serve as effective units for the provision or regulation of power or transport, for housing or the planning of urban development, for the relief of distress, for the provision of effective services in public health and education, and, finally, for the raising of the money required to pay for all these things. One remedy would be the transference of more and more services from local to national control and administration; but, while this is the appropriate step in certain special cases, such as the provision for the unemployed, it is impossible as a general measure. National government is already far too congested with matters common to the country as a whole to be made responsible for the detailed management even of the most vital local affairs. Broad questions of policy must indeed be nationally determined, and the local authorities, whatever their areas, must work within a framework of national control. But, in order to lighten the burdens of central government, which are certain to grow even heavier as a coherent policy of national development is put in hand, it is indispensable to introduce the greatest possible measure of devolution into the detailed conduct of the collective affairs of the community.

In order to do this effectively, we must have larger areas of local government, with properly constituted representative bodies in control. Some sort of regional authority, covering an area considerably larger than that of most counties, must be worked out. This, of course, does not mean that the region will, or should, supersede the existing areas. These will remain in being, subject to some adjustments, and will find plenty of work to do within their appropriate spheres, just as the Metropolitan Borough Councils find plenty to do though their areas are included in the larger area of the London County Council. The need is not for the transference of all local government functions to bodies covering a larger area, but for the establishment of the 'region' as an area which can be made the unit for certain services specially requiring development on a large scale.

I do not propose in this book to discuss the size or shape of the proposed new regional areas of local government. I have done this at length in another book;<sup>1</sup> and my concern here is only with the bearing of regionalist ideas on the immediate future of local government in Great Britain. It is improbable that regions, of any shape or size, will be definitely created and endowed at the outset with large and diversified powers of local administration. It is far more likely that the regional authority will grow as the result of experiments made first of all in the organisation of one or two special services on a representative basis over a larger field.

A Labour Government will not then, within its first or second term of office, necessarily be called upon to produce a complete regionalist scheme for the reform of British local government. But it will be called upon to try out the regionalist principle in the case of certain special services by establishing for wide areas regional authorities armed with the necessary powers. Perhaps the most obvious case is that of electricity. Under the recent Acts we have now a Central Electricity Board armed with wide national powers of co-ordination and control. Retail distribution in the various localities is in the hands either of municipalities or of statutory companies which could, in most cases, be municipalised or acquired by a county authority without serious difficulty. But the generation of electricity under the present scheme, while it will be partly under municipal control,

<sup>1</sup> *The Future of Local Government.*

looks like passing more and more into the hands of great privately owned Power Companies operating over a wide area, or, at best, of Joint Electricity Authorities representing both municipal and private concerns. If, as I have suggested in an earlier chapter, the entire generation and supply of electricity ought to be taken out of private hands, the generation and bulk distribution of electric power within the new areas now being constituted by the Electricity Commissioners seems to be a function well suited to a regional authority representative solely of public interests. It might well be handed over to Regional Power Councils, officered by full-time experts working under the control of representatives drawn from the local authorities within the area of regional supply.

These representative councils would need to be executive bodies, armed with full powers of action, and subject only to the national control of the Central Electricity Board. Beginning with this one function of organising within the region the generation and bulk distribution of electrical power, they might well be gradually entrusted with other duties, especially in the organisation of the vital services of power and transport. They could become, for example, road authorities controlling the great trunk highways and the development of road transport services operating over the areas of a number of local authorities. They could do useful work, vitally connected with power and transport, in developing coherent schemes of regional planning over a still wider area than that of the existing joint town-planning committees. And, whereas these latter are and will probably remain for the present merely advisory bodies, they could gain greatly in usefulness if they were regularly reporting to a Regional Council with wide powers to see that their schemes were carried into effect.

I am here envisaging a gradual development of regional organisation on a purely experimental basis. Some things the regional authority would do directly: in others it would become a co-ordinating and supervising body for certain parts of the work of the smaller authorities within its area. Any attempt to establish, at a blow, regional authorities possessing these powers would be strenuously fought by the existing local authorities, which would see in it a menace to their independence, and would succeed in rousing a formidable parochial

sentiment against it. But, if a start were made with new services in which the choice clearly lies not between local and regional, but between regional and centralised national control, it should be possible to avoid rousing this antagonism in a serious form. Parochialism is, within its proper sphere, an excellent thing; but it can easily become not merely a dangerous foe to the efficient development of public utility services on modern lines, but also the means to undesirable centralisation of control. Regionalism is the only means of avoiding a dangerous growth of centralised administration; but if 'local patriots' are to be got to realise this, it will be necessary to go warily in creating the new regional authorities, and above all to begin with services which involve the minimum of interference with the present work of municipal and similar bodies.

The chief practical difficulty in the way of the policy here suggested lies in the need for rapid action. At present the tendency in local government is towards the concentration of power, at the expense of the smaller authorities, in the hands of the largest bodies now available—the counties and county boroughs. This, as we have seen, is a feature of the Chamberlain Scheme now before Parliament; and it is also a very marked tendency in educational administration and in the minds of educational reformers. Undoubtedly, in the short run, the change makes for good; for almost any enlargement in the area of administration and finance is likely to improve the efficiency of local government services. But it has the serious disadvantage of strengthening the division between the larger towns and the rest of the country, and of impelling the county boroughs towards a more active demand for the extension of their boundaries. The county, with the county boroughs carved out of it, is a better unit of administration for many services than the smaller authorities which it is tending to displace. But it is not in most cases a really suitable area in the light of modern needs; nor is it usually large enough to resume any sort of co-ordinating power over the county boroughs which fall within its geographical limits. A larger body is badly needed, and in time this larger body will be likely to take over many of the controlling and co-ordinating powers which are now coming to be vested in the County Council, as well as to assume some measure of control over the county boroughs in respect of those services which

concern it in common with the surrounding area. In view of this possibility, it is important, in establishing regional authorities, even for a narrow range of functions, to keep as far as possible to the administrative county divisions, and to group administrative counties as units within each region in preference to devising an entirely new set of boundaries in relation to each particular service. In the case of electricity, for example, the pure technician, regarding solely the convenience of supply, would be likely to draw his lines of demarcation between regions with little or no regard to existing administrative boundaries. It is not suggested that efficiency of supply should be sacrificed to the preservation of the existing units, but only that, where the technical needs are consistent with the preservation of the unity of the administrative counties, as they usually are, it is of great importance that this unity should be preserved. For upon this will largely depend the ease with which the regional authority, once in being, will be able to attract to itself fresh functions, and to take over from the counties and county boroughs those which demand co-ordinated administration over a wider field.

Pending the creation of regional units, British local government will be compelled to muddle along as best it can. A Labour Government will be compelled, like its predecessors, to encourage the concentration of powers in the hands of the largest available authorities; and it can also with advantage make easier the extension of urban boundaries and the amalgamation of contiguous urban areas to form new towns. The attempt to stop borough extensions and the creation of new county boroughs in order to preserve the county from becoming a mere residue is doomed to failure. It is ridiculous that a town should be administratively divided from its suburbs merely because the County Council fears the loss of ratepayers to the town. The remedy clearly lies in a re-integration of town and country over a far wider area, and not in the attempt to preserve, in the interests of balance, a number of purely unreal and vexatious divisions.

A further illogicality in the present system of local government in England is the artificial classification of urban areas into different types. We have at present county boroughs, other municipal boroughs, urban districts governed by Urban

District Councils, and some urban areas in which the Parish Council is still the governing body. All these distinctions carry with them differences of status and degree of independence. The county borough is a thing apart, possessing all the powers of a county and administratively quite separate from the county in which it is situated. It is clearly marked off from other boroughs by this independence. But no such clear line separates the ordinary municipal borough and the mere urban district; and there seems to be no reason for preserving the distinction between these two types of urban authority. It would be far better, and would simplify the structure of local government a good deal, if all the larger urban districts were recognised as boroughs, and the smaller reduced to the status of parishes or included in the areas of contiguous boroughs. The multiplication of small urban districts stands in the way of proper co-ordination of local services; and the existence of a number of huge urban districts without borough status is merely an anomaly.

The straightening out of the present confused tangle of local government areas is a vitally important step towards the building up of a satisfactory system of local administration. It is, moreover, closely bound up with the question of finance. The de-rating of agricultural and industrial properties will, as the Government itself has recognised, leave many of the smaller rating authorities in an impossible position for bearing any considerable fluctuations in expenditure; and, in so far as we continue to depend on rates at all, it is becoming indispensable that they should be made uniform over far larger areas. This will mean that State grants-in-aid will also be paid increasingly to authorities covering a larger area, and that the distribution of these State grants to the smaller authorities will in some cases at least, as under the Chamberlain Scheme, be done through the larger bodies. It may be that, in the long run, the only State grants-in-aid will be those made to the Regions, and that the regional authorities will become the dispensers of grants to the county, borough, and district authorities falling within their areas. This clearly is not practicable for some time to come; but as the larger authorities assume more definite supervisory functions in relation to the smaller, the financial relations between them are bound to be altered. The distribution of State

grants through the Regions seems likely to provide the best means of ensuring a real decentralisation of powers now assembled in the hands of the national government departments.

In this connection, the question of audit is of the first importance. There has been of late much criticism of the actions of the District Auditors appointed by the Ministry of Health. These officers, it is urged, instead of confining themselves to their proper functions, have more and more assumed the right to interfere in matters of policy, limiting for example the discretion of local authorities as to the wages they shall pay to their employees, or the amounts they shall grant in relief of poverty and disease. It is obviously vital that the accounts of all local authorities shall be submitted to proper audit, and full publicity be given to the character of their expenditure. But it is also clearly undesirable that an officer appointed by the Minister of Health should assume a large measure of restrictive control over the policy of Local Government. It will be necessary, then, while retaining the system of district audit, to define more precisely the duties and powers of the auditors, in order to limit their ability to interfere in matters of policy without destroying their right to free expression of opinion. So modified, the district audit system appears to be highly suitable, not only for the purposes to which it is now applied, but to all local government services, whatever may be the status of the authority responsible for them. District audit, under proper conditions, is likely to be of far more use to the public than the system of elective auditors now in force in the towns in respect of certain of the services they provide. The District Auditor, however, must be made not the interpreter of a body of principles and policy presented to him by a central department, but a strictly financial officer, with power only to draw attention to what he considers to be abuses of public trust, and not to impose any penalty. 'Surcharge' of improper expenditure should be a matter, not for this departmental official, but for a properly constituted tribunal able to receive his reports in evidence.

The recent encroachments of the District Auditor on the sphere of local government policy are not alone in indicating a desire on the part of the central Government to strengthen its hold over the local authorities. Even more startling is the power now legally vested in the Minister of Health to supersede alto-



gether an elected local body, and replace it by commissioners of his own choosing, with power to levy a rate on the inhabitants. This extraordinary power has, indeed, been applied so far in this country only to Boards of Guardians; but in Ireland a similar power has been used to supersede the elected Corporation of Dublin; and these exploits in dealing with refractory local authorities seem likely to spread. Clearly, any power of this sort, vested in a central government department, strikes at the very roots of local independence. The central authority possesses, in its power to withhold grants, ample means of enforcing the performance by local authorities of those duties in respect of which they are aided out of national funds; and these duties are rapidly becoming practically co-extensive with the entire range of local services. The anomalous position of the Poor Law, as a service not receiving, save for certain limited sums, grant aid from the State, partly accounts for the high-handed action which it has been possible for the Government to take towards those Boards of Guardians which have put the relief of distress first, and 'economy' a long way behind. But clearly the power to supersede an elected local body should be needed hardly ever, if at all, and should in any case not be vested in a government department. It should require special legislation in every case; and accordingly the Act under which Mr. Chamberlain has superseded a number of Boards of Guardians, and browbeaten others into submission to his will, should be promptly repealed, if it still remains on the statute-book when a Labour Government comes into power.

A Labour Government will be forced to do so much centrally that it will need to seize every chance of devolving responsibility. Industrial reorganisation, for the most part, must be nationally initiated and controlled; for Great Britain is too small for her industrial problems to be solved by local or even regional action. The public utility services also need national co-ordination and control; but within this national framework there is plenty of room for devolution. Take, for example, the case of housing and town-planning. Apart from the emergency activities of the National Labour Corps, the functions of the State in relation to these are mainly those of equipping local authorities with the necessary powers, of imposing the provision of reasonable accommodation and the drawing-up of proper town-planning

schemes as local or regional obligations, and of furnishing the necessary grants-in-aid. It is for the local or regional bodies to draw up the plans, and actually to build the houses or see that they are built on the right lines. But, as we have seen, the present local areas are too small for effective planning, and often wrongly delimited for the actual work of house-building. Regional planning, by a properly constituted regional authority, is urgently needed; and this larger body, in addition to planning, will have actually to supervise and co-ordinate the building schemes of local authorities within its area, and in some cases to undertake building itself, or help the development of public utility societies. This is especially urgent if the mere agglomeration of more and more houses round the already congested urban centres is to be avoided. At present, each local authority builds, wherever it can, within its own area, and where it cannot do this, just outside its area. But clearly the public interest would be better served if, instead of following this line of least resistance, we set to work to break up some of our congested cities by the building of new towns well out in the countryside. One such town, Welwyn Garden City, has been built during the past few years;<sup>1</sup> but because of the inappropriateness of our system of housing authorities it has had to be financed privately, under conditions which make any considerable spread of such new towns quite impossible. A regional authority, surveying the needs of a whole broad Region, and armed with adequate powers of control over transport as well as housing, could readily do on a large scale what the pioneers of the Garden City movement can only demonstrate on a small scale as a sound and workable social experiment. Obviously, the regional development of arterial roads is also closely connected with the solution of this urgent problem of a better distribution of population over the face of the country.

If powers of this magnitude are to pass into the hands of Regional Councils, these will evidently need to become in due course directly elected bodies. They may begin their work as indirectly chosen assemblies of representatives drawn from the smaller authorities within their areas; but, as their functions grow, they will need to be brought more directly under popular control, and elected by the whole body of voters within each

<sup>1</sup> Letchworth was, of course, the pioneer in pre-war days.

Region. They will tend to become, in fact, miniature Parliaments rather than enlarged local authorities, and will, like Parliament, concern themselves largely with laying down the conditions under which the lesser authorities subordinate to them are to carry out the policies which it will be more and more their duty to prescribe.

It would be, nevertheless, a mistake to attempt at once to create regional authorities of this ambitious type; and, in any case, a Labour Government, in the early stages of its career, will certainly not have time for any such ambitious plan of local government reform. Its business will be to call into existence, for certain limited purposes, a new type of authority covering a wide regional area, to arm the new bodies with certain definite powers, and to leave their obvious convenience for many important services to impress itself upon the public mind, and produce gradually a desire for an extension of their functions. British Local Government will not be easily or quickly put on a satisfactory basis; and a Labour Government, assuming office with a huge and urgent programme of economic reorganisation to be carried through, can be expected only to lay out the ground-plan of a new structure adapted to modern needs.

## CHAPTER XVI

### EDUCATION

Recent educational progress reviewed—The rise in educational standards—The 'economy' campaign—The Report of the Hadow Committee—Defects of the present administrative system—The false division between 'elementary' and 'higher' education—Growth of the 'elementary' system—Central Schools—Need for unification of administrative control—Primary and post-primary education—The present position of 'secondary' education—Raising the school-leaving age—A new secondary school system—The curriculum—The place of manual education—Should the schools provide vocational training?—Secondary education for all—The Grammar Schools and their functions—Future of the school-leaving age—Free places and maintenance allowances—Class-divisions in the educational system—Administrative reforms—Scotland—The problem of educational areas—Regional Universities—The school medical services—The supply and equipment of teachers—The teachers and the Universities—The State in relation to University education—University extra-mural education—Research at the Universities—A standing Universities Commission—State grants for University work—The development of Adult Education—The Workers' Educational Association—Adult Education and the Trade Unions—Education *versus* propaganda—The National Council of Labour Colleges—The problem of State grants—The need for better adolescent education—A summary of immediate reforms.

THE British educational system has made notable advances during the past quarter of a century, and even—despite 'economy' campaigns—during the past ten years. Teaching methods have greatly improved, especially in the elementary schools; the status and quality of the teaching profession have been substantially raised; a large and expanding system of public secondary education has grown up, and has been considerably supplemented of late by the development of schools of the 'central' or 'higher elementary' type; access to the Universities is a good deal easier for poor boys than it used to be; and adult education in its various forms has taken a recognised and

important place in the educational scheme. A school medical service has been instituted, and the provision of school meals made possible in cases of exceptional need. Some progress, though deplorably little, has been made with the provision of 'special' schools for children of abnormal types. Technical education has considerably expanded; and there has been a big improvement in the equipment of both schools and colleges for scientific and technical teaching and for research. And, finally, though the school-leaving age remains at fourteen, exemptions below that age have been swept away, and a very few areas have taken the step, made possible by the 'Fisher' Act of 1918, of raising the age to fifteen.

These are substantial achievements; and yet most people will agree that, even now, our public educational system is in a thoroughly unsatisfactory state. The elementary school has greatly improved; but it is still not nearly good enough. Our teachers are better trained and better paid; but training colleges and departments are still unsatisfactory places, and the quality of school staffs still leaves much to be desired. Classes are rather smaller than they were; but they are still often far too large for efficient teaching. There are more secondary schools; but not one child out of a dozen even now gets to a secondary school, and, of those who do, the great majority leave at fifteen or sixteen. Access to the Universities has been made easier, but they are by no means yet properly equipped for handling the large numbers of students whom they admit. Their resources are low, and their teachers often too overworked to have time to attend to individual needs, much less to undertake valuable research. School medical inspection and treatment exist; but treatment is still grossly inadequate. School meals can be provided; but how often are they, even when clear need exists? The provision of special schools falls far short of the need. In some areas, school buildings and equipment have been put into far better condition; but many of the rural schools are still inconvenient, insanitary, and ludicrously ill-equipped. And, finally, education for the great majority still stops short just as it is becoming most productive, and the young worker is thrust out into factory or mine or field with a sadly defective equipment for life, and under conditions which easily knock out of him in a few years a large part of what he has learnt.

The improvements are real improvements; but they have reached only that stage at which each forward step reveals a new stretch of the road still to be travelled. The more we have done, the more conscious we have become, not only of its inadequacy in amount, but also of its defects of quality and suitability. We have made education better; but our standards rise faster than our achievements. The demand is now, not only for more education, but also for education of a better sort.

The educational system is thus assailed on both flanks. The voices of those who hate and fear it, and believe that it is ruining the country by giving the poor ideas above their station, are now less plainly heard than of old; but they have not been stilled. No longer for the most part attacking education directly, they seek to sabotage it by urging the need for 'economy' and the indispensability to industry of an abundant supply of juvenile labour. The underpaid worker, sorely needing the supplementary earnings of his children and unable to look far into the future, still aids and abets the enemies of education in some degree. But he does so far less than of old; and the upper wage-earners and the organised Labour movement have been thoroughly converted to the support of more and better education. The 'economists', however, have been able in recent years seriously to slow down the rate of progress, especially by checking the creation of more secondary school accommodation and by obstructing the raising of the school-leaving age. The Local Education Authorities have expressed their willingness to have the age raised, with reasonable notice, to fifteen over the country as a whole: but the Government, obedient to the 'economists' and the Federation of British Industries, still blocks the way.

On the other flank, the educational system is assailed by the educationists themselves. By their practically unanimous consent, it needs drastic reform if we are to get the best value out of what we spend upon it. They want us to spend more; but they also believe that we are not putting our present expenditure to the best use. In especial, their criticism is rightly directed to the existing division between 'elementary' and 'higher' education—a division not merely unreal in practice to a growing extent, but also based on a fundamentally wrong conception of the functions of the educational system. The Report of the Hadow Committee on *Education and the Adolescent*, published

in 1927, puts this criticism into definite shape, and in its positive proposals lays down clearly the essential lines of reform.

We have at present two separate systems of education, which in many areas are not even co-ordinated under the control of the same authority. According to the theory of the administrators, education is divided sharply into two branches, 'higher' and 'elementary'. 'Higher' education, including the entire public secondary school system, is in the hands of the County and County Borough Councils alone, whereas elementary education is entrusted not only to these bodies, but also to the Councils of most ordinary Boroughs and of the larger urban districts. The County Boroughs and the purely rural areas have only a single education authority: most other towns have two—the local Council for elementary, and the County Council for 'higher', education.

Administratively, this division is a nuisance, since it prevents for a large section of the population any co-ordinated development of educational facilities. And practically the nuisance extends far beyond the areas in which two separate authorities divide the control; for even when there is only one authority, elementary and higher education have to be conducted under separate codes and conditions, and a sharp distinction is drawn between the two types. Instead of a unified scheme of education, leading right on from nursery school to University, or at least to the higher stages of adolescent education, we have a scheme cut sharply into two by a meaningless and unworkable statutory and administrative barrier.

For the line of division is so wrongly drawn that in practice it is constantly overstepped. In theory, the elementary school is meant to provide for children up to the age of fourteen, when compulsory attendance ceases. But in fact there are a great many children over fourteen who are in schools of the ordinary elementary type. The secondary school is meant to cater for children, from the age of about eleven, who are to remain at school for a substantial period beyond the legal leaving age; but in fact the majority drop out by sixteen, and many at fifteen years of age. Only a small fraction of the total child population ever gets to a secondary school; but in practice a growing proportion gets some kind of education that is really of a 'post-primary' nature in 'central' and similar schools conducted under

the elementary code. Some children enter a secondary school at or about eleven, while others, remaining in schools that are nominally elementary, receive from eleven onwards an education that approximates to the secondary type. Secondary schools and 'central' or higher type 'elementary' schools become competitive means of meeting the same need. Often nowadays it is a question whether a particular town or district should be provided with a new secondary school or with a school of the 'central' type; and the latter is often preferred, not on educational grounds, but because it can be built, staffed, and equipped under the elementary regulations, which are far less exacting in respect of standards, and allow the payment of lower salaries to a more overworked body of teachers.

Elementary education, in face of changing needs, has burst its bounds, and begun to provide schooling that approximates in many respects to the secondary type. And, in these circumstances, the distinction between elementary and secondary education is apt to become a distinction of class, rather than of educational competence. Even within the 'elementary' group of schools there exist in some areas higher-grade elementary schools which are recruited largely on a class basis. Entrance to these higher types of elementary school is regulated on no uniform principle. Some are selective by examination, while some are open to all normal children of a certain age or standard. In other areas, instead of starting 'central' or similar schools, the Local Education Authorities have so reorganised the ordinary elementary schools as to provide, in the higher classes, education of a semi-secondary type. The impression produced by studying the Hadow Report and other recent surveys of the field of adolescent education is one of complete confusion. In a sense, the situation is hopeful; for there has been a great diversity of live experiment, and the result has been as a whole a substantial improvement in the quality of elementary schooling. But it is quite evident that the needs and the facts of the situation do not square with the administrative system, and that the latter urgently calls for drastic overhauling.

All educationists are broadly in agreement, first, that the sharp separation between primary and secondary education ought to be broken down, and both stages co-ordinated as parts of a single unified system. They agree, secondly, that within this



system the best dividing line between primary and post-primary education comes at about eleven years of age. It follows that all normal children who remain at school beyond this age—that is to say, under modern conditions, all children—ought to receive some sort of secondary education during their later years at school. Further, most educationists hold that the school-leaving age ought, at the earliest possible moment, to be raised at least to fifteen, in order to give the children a fair chance of profiting by this secondary education. Many would go further, and lay their plans definitely for raising the age to sixteen.

In the light of these generally accepted principles of sound educational practice, the present position is thoroughly unsatisfactory. Of the total number of children between eleven and sixteen, only a little over seven per cent are in attendance at grant-aided secondary schools, while fifty-five per cent are in the elementary schools. But of this fifty-five per cent only five and a half per cent are in schools or classes providing 'advanced instruction' of the 'central' school type described above. The vast majority remain to the end of their school lives as pupils in the ordinary elementary schools. Of the children between eleven and fourteen, more than four out of every five are in the elementary schools. Of those between fourteen and fifteen, less than a third are at any State-aided school at all; and of those between fifteen and sixteen, less than one in ten.

The right lines of immediate reform have been clearly indicated by the Hadow Committee. Broadly stated, the Committee's proposals are that the leaving age should be raised to fifteen within the next few years, and that a form of secondary education should be provided for all children between the ages of eleven and fifteen. It is not, however, proposed to do this by expanding the present secondary school system to include all children. A rapid increase in the number of secondary schools of the existing types, and the provision of far more free places and of maintenance allowances adequate in both number and amount, are certainly to be desired; but the universalisation of the secondary school in its present form is neither immediately practicable nor really desirable. It is far easier, and likely to lead to better results, to build on the beginnings of higher education that have developed under the present elementary regulations, and to enforce the provision for all children of sufficient free places in

secondary schools of new types based on the existing central schools and 'higher tops' within the elementary system. This will involve both a raising of the standards of accommodation and equipment and an improvement in the staffing of schools of these types, so as to enable them to give an education that is really secondary in spirit and content; but it will be both less expensive and far easier to accomplish than the tremendous expansion of the present secondary system which the alternative policy involves.

It has, moreover, positive advantages. The secondary schools, as they now are, provide a curriculum which is primarily literary. Though some of those who attend them proceed to the higher branches of skilled manual work, they cater predominantly for boys and girls who will enter non-manual callings—including of course a great many who will afterwards become teachers. The curriculum which they have built up, partly in imitation of the so-called 'public' schools, to meet the needs of their present pupils, is by no means necessarily the best for the great mass of children who at present get no secondary education at all. As soon as we begin to think in terms of secondary education, not for a minority selected partly on a class basis and partly because of its literary bent, but for all boys and girls, we are compelled to confront the problem in a different way, and to devise varying curricula suited to different bents and ways of life, and including in many cases a considerable element of manual teaching and instruction in 'practical' subjects.

Any suggestion of this kind is very liable to be misunderstood. Mention of the words 'manual' and 'practical' in connection with any form of education conjures up, in many minds, the spectre of technical and vocational training, and suggests that educational reformers are surrendering to the cry of industrialists and farmers for schools that will train our youth in the practical arts of making docile workmen in this or that particular occupation. This is not what is meant. It would be thoroughly unsound educationally to allow any sort of specialised vocational training to creep into our educational system for children below the school-leaving age. Fifteen is quite time enough for any boy or girl to begin learning a trade. But, if we need to be on our guard against those who desire to make education vocational, we have also to beware of those who insist on regarding it as

purely literary. There is a cant of book-culture as well as a philistinism of business men. And we must bear in mind that some learn more readily in one way and some in another, and that to many the right use of hand and eye is as indispensable a part of training for a happy and balanced life as the acquisition of book-knowledge.

For a long time to come, the majority of those who emerge from our schools will spend the greater part of their working lives in some sort of manual occupation. Nor, if the conditions of manual work can be improved, the hours made reasonably short, and the honourable status socially recognised, need this be any hardship. At present, most people who get the chance keep their children out of manual work, not only because its conditions are onerous, but also because its status is low. The universalisation of secondary education will go far towards removing the difference of status between the manual and non-manual workers. But it will only do this if the new forms of secondary education are based, without a lowering of standards, on a clear recognition that the conception of culture must be broadened, and the training of hand and eye, not for a specialised craft, but in such a way as to bring out the qualities of craftsmanship and understanding that exist in many to whom book-education makes little appeal, recognised as no less worthy of the educationists' attention. Indeed, rather more manual bias would do some of our existing secondary schools no harm. They have their danger of becoming merely vocational training establishments for teachers and clerks.

It is not, of course, suggested that the curriculum of the proposed new secondary schools should consist mainly of manual education. The new schools should have as their object the provision of a good general education of secondary type, and manual and practical subjects should be allowed to enter into the curriculum only as ministering to this end, and not for their value in training boys and girls for any particular occupation. The curricula should be 'realistic', in the sense that they should aim at giving the pupils an understanding of the world in which they will have to live. In a mining village, the children should learn at school, not how to mine, but something of the practical problems that will confront them in the mine and in the life of a mining community. In a big town, some schools might have, up to a point, an industrial and others a commercial bias, not as

training their pupils for particular industrial or commercial occupations, but as helping them to grasp more easily the problems and the significance of the branches of industry or commerce into which they will be likely to enter on leaving school. Curricula can, moreover, be made very diverse, in order to provide for varying interests and types of mind and allow specialisation on particular groups of subjects, without any element of purely vocational training being allowed to enter in.

Let it be admitted that the policy here outlined could be twisted awry by a Board of Education and by Local Educational Authorities determined to make secondary education vocational by stealth. The fear of this must not be allowed to deter us if we feel that the policy, properly applied, is the right one. Indeed, if we are conscious of the danger, the best remedy is to get the new system introduced when a Government that can be counted on to stand up against it is in power.

The proposal, then, is that, leaving the existing secondary school system to be developed as rapidly as possible along the present lines, we should create side by side with it a new secondary system through which all normal children who do not go to a secondary school of the existing type would pass. The elementary school would send them out at about eleven years of age; and they would then, with the raising of the leaving age to fifteen, have at least four years' schooling of a secondary type. This is, in effect, what is happening already for the minority of children who pass from the elementary into 'central' or similar schools. It is now proposed that this transference should become general, and that a year should be added to the period of compulsory attendance in order to enable a higher standard to be reached before the school career of the majority comes to an end.

It would be obviously confusing, however, to have side by side two different types of school, both labelled as 'secondary'. The Hadow Committee accordingly proposes a change of name, and suggests that the present secondary type should in future be known as 'Grammar Schools' and the schools of the new secondary type based on the central and similar schools as 'Modern Schools'. For easier exposition, I shall use these names for the rest of this chapter.

The commonest objection to the Hadow proposals is that,

instead of abolishing class-differentiation, they will tend to perpetuate it. The Grammar Schools will be designed for children whom their parents intend to keep at school at least until the age of sixteen, and will provide a mainly 'literary' and 'cultural' curriculum. The Modern Schools will be meant chiefly for children who will leave school at the minimum leaving age, and will have in varying degrees a 'practical' bias, even though their main aim will be the provision of a good general education. This, it is urged, means one form of class-education for the manual worker and another for the teacher, clerk, or other non-manual worker—who, having received it, will continue to regard himself as belonging to a superior middle class. There is some force in this objection; for, in principle, it is clearly desirable that a manual worker should have just as good a general education as anyone else.

It is, however, not practical politics, for the present, to raise the statutory school-leaving age further than fifteen. The time will come when it will be astonishing to everybody that children should ever have left school at less than sixteen or more; but that will not be during the next ten years, with which I am here solely concerned. If, for the present, we must stop short at fifteen, we cannot hope to give those who must leave school at that age as good an education as the Grammar School boy who leaves somewhere between sixteen and eighteen. We could, indeed, insist, in the interests of class-unification, on sending all to the same schools, whatever the age at which they had to leave. But this would be unsound educational practice; for the curriculum needs to be differently devised for those who leave at different ages. For those who must leave at fifteen, we have to devise a system which will give them, before that age, the best general education that their time allows; and this involves planning out the entire course in a way that would be inappropriate for those who mean to go on until they are sixteen or seventeen or eighteen. We should only spoil the work which the Grammar Schools are now doing if we compelled them to readjust all their methods in order to cater for a great majority of pupils leaving school at fifteen years of age.

What we can and must do is, first, to insist that the education given in the Modern Schools shall be as good of its kind, and shall be given with as good staffing and equipment as a Grammar

School education; and, secondly, that the way shall be left open at all stages for boys and girls who show suitable promise to pass from Modern School to Grammar School, and to be helped to remain there by the provision not merely of enough free places but also of maintenance allowances on an adequate scale. There will be many cases in which a boy or girl who has passed to the Modern School at or about eleven will prove to be the sort of pupil who ought to receive a Grammar School education. Some children develop their aptitudes far later than others, and it is often impossible at eleven to discover a child's real capacity or bent of mind. Normally, those who are going to the Grammar School will pass to it directly from the elementary school at or about eleven; but there must be abundant opportunity for those who develop later to pass into it at any subsequent stage.

The answer is not complete; for it is true that some class-distinction will continue between the 'Grammar School' and the 'Modern School' pupil. But we are considering, not a classless Utopia, but the reforms of the next ten years in our present class-ridden society. And it is surely evident that the class-distinction that will remain will be infinitely less than that which now exists between the boys or girls who go to work directly from the elementary school and those who receive a secondary education. The way to abolish class-distinctions is to be found not in a mere change in the educational system, but in the establishment of economic equality. The distribution of incomes and of power in society is the final determinant of class. Educational distinctions are an important contributory cause, and have to be dealt with. But it is foolish to cavil at a sensible educational reform only because it does not accomplish something that is far beyond its power.

The suggested changes in the character of our public educational system clearly involve large administrative reforms. Administratively, the distinction between 'elementary' and 'higher' education ought to disappear altogether, and the entire school system to be treated as a whole and controlled in each area by a single authority. This clearly means the disappearance of the smaller borough and urban district authorities which have charge of elementary education alone, and the transference of their powers to the County Councils. The school system as a whole would thus be controlled everywhere by one authority—

in the large towns, as now, by the County Borough Councils, and everywhere else by the County Councils. The so-called 'Part III' authorities would be eliminated—and few would regret their passing.

The elimination of the smaller Local Education Authorities seems, indeed, to be clearly foreshadowed in the present Government's proposals for local government reform. These, as far as they relate to England and Wales, do not directly affect education; but the Scottish part of the plan includes the abolition of all the minor Education Authorities in Scotland, and the complete transference of their powers to the County Councils. Only the authorities in the four largest towns—Glasgow, Edinburgh, Aberdeen, and Dundee—are to be allowed, if the Government has its way, to survive this holocaust. In Scotland, where the urban Education Authorities are still *ad hoc* bodies, this proposal is likely to arouse very strong opposition; and it may easily prove to be impossible to carry it into effect. But its inclusion in the scheme seems to point clearly to a desire on the Government's part to concentrate all educational powers in the hands either of the counties or of very large urban authorities.

Apart from the question whether education is likely to be better managed by general local governing authorities or by *ad hoc* bodies, this concentration of control in the hands of authorities covering a substantial area is clearly on the right lines. A small authority cannot economically maintain a properly diversified service, or make adequate provision of special schools for abnormal children or of varied types of school for the normal with their different bents and intentions. It is, indeed, very questionable whether most of the administrative counties are large enough for the effective control of educational services. The Universities and University Colleges, with which the school system ought to be closely linked up, usually serve several counties at once; and there is much to be said in favour of a regional control of education following roughly the lines of University spheres of influence. Educational Regionalism is, however, hardly practical politics at present. The Region, we have seen, will have to grow gradually, beginning with narrowly limited powers and gradually adding others as its virtues are tested by practical experience. To begin building it round the service of education would involve too much friction at the outset. It is preferable for the present to

carry consolidation only to the point of abolishing the minor ('Part III') authorities, and concentrating control in the hands of the County and County Borough Councils.

So far, then, the educational programme for a Labour Government is sufficiently clear. It should, with reasonable warning to the local authorities, raise the school-leaving age to fifteen, and at the same time reorganise the educational system by placing the full control of elementary as well as higher education in the hands of the County and County Borough Authorities. It should unify the whole system by breaking down the unreal and unworkable distinction between 'higher' and 'elementary' education; and should provide, in 'Modern Schools', free secondary education from eleven to fifteen for all children not sent to a 'Grammar School' or some other special type of school. It should further provide for an increased number of schools, and places in schools, of the 'Grammar School' type; and should ensure the provision of maintenance allowances in all cases where need can be proved. It should work out for the new 'Modern Schools' new and varied curricula, which might include, in addition to 'literary' subjects, forms of manual and practical work of a non-vocational character, designed to appeal to the unbookish part of the population. It should improve the school medical services, and make them wholly free, including all necessary dental treatment. It should make the provision of school meals a compulsory function of the Local Education Authority, wherever need can be shown to exist. It should aim at reducing all school classes speedily to manageable size, with which the teacher can hope to deal in a satisfactory way. It should help forward school building, including the reconstruction of old schools and the provision of better equipment and playground accommodation. And, in the new 'Modern Schools' which the local authorities will be called upon to provide, it should ensure that buildings, staffing, and equipment are all based on standards at least as good as those which now prevail under the regulations for secondary education.

Here is a substantial immediate programme. But it raises at once a vital question. Whence are the teachers for the new schools to come, and how are we to secure that they shall be properly equipped for their task? There is, indeed, at present, in consequence of the 'economy' campaigns of the past few years, a surplus of teachers seeking employment; but expansion of the



educational system on the lines here suggested involves also substantial recruitment of new blood for the teaching profession. The difficulty of finding enough teachers has sometimes been used as an argument against any attempt in the near future to raise the school-leaving age; but the major Local Education Authorities have already expressed the view that, given reasonable notice, they can find the necessary teaching personnel, and there is no reason at all to doubt their judgement on this point. If proper facilities for higher education and vocational training are available, there is no dearth of men and women who will be ready, for adequate salaries and under fair conditions, to take up teaching as a profession, and able to do the job reasonably well.

Training, however, raises serious problems of its own. We shall need to train more teachers; and we shall need to give them better training. The standards of the teaching profession have risen considerably in recent years, especially since the expansion of the modern Universities and the improvement of salaries under the Burnham scales. But, apart from the older teachers, many of whom were sent into the work with an utterly defective equipment, we are still turning out large numbers of teachers to whom their previous education and training do not afford a reasonable chance of making good. More teachers now pass through a University course; the Universities have established their special departments for teacher-training; and a beginning has been made with the informal linking up of the specialised Training Colleges with the University bodies. But relatively few elementary teachers have been to a University, and still fewer have passed through a full University course. A great many have had but a single year at a Training College, following upon a period of experience as 'pupil-teachers'; and two years is the normal Training College course. This is all wrong. Specialised vocational training is no less important for teachers than for other professions; but it ought to follow upon a really good general education, and the provision of a better general education for all entrants to the teaching profession is even more important than the development of further facilities for specialised training. Every intending teacher, for elementary as well as secondary schools, ought to pass through a full University course of at least three years. If education is worth providing at all,

the job of preparing the teachers for their work is worth doing properly.

This will cost money; but the money does not present the only difficulty. The Universities are not happy at the prospect of being flooded out with potential teachers, whose coming, unless the way were carefully prepared for it, might involve a lowering of their educational standards and the domination of their educational policy by the need to turn out the supply of trained teachers demanded by the State. The University staffs are hard put to it to cope with the present influx of students. A new influx of intending teachers would mean the necessity for a large increase in staffs, for fresh building and equipment on a large scale, and probably for the creation of some fresh Universities and University Colleges, or the raising of existing Colleges to University standard. All this could not be done without substantial State help towards meeting both the annual costs and the new capital expenditure involved in the expansion. As a transitional step, the policy of linking up the present Training Colleges more closely with the Universities is probably inevitable. But the fresh accommodation needed ought to be sought within the Universities themselves, and not by the creation of more specialised Colleges; and, as rapidly as possible, the whole system of training ought to be transformed, so as to make a full course at a University the indispensable preliminary to entry to the teaching profession. As it is now in the case of teachers in the secondary schools, specialised vocational training ought to become for all teachers a post-graduate affair. And, with these subjects, the State ought to make grants to the Universities on a liberal enough scale to permit of their proper equipment for the additional tasks which they will have to assume.

Consideration of this question leads on naturally to the wider problem of the State's relation to the University system as a whole. Few people want our Universities to become directly either State institutions or parts of the machinery of the educational system administered by the Local Education Authorities. But it is quite evident, on the one hand, that the Universities will be less and less able to live on their endowments or on the donations of rich people and will therefore be driven more and more to the State and the local authorities for aid, and, on the other, that this aid will not be given unconditionally, in view of

the deep interest which the State is bound to take in University education as the last stage in an educational system of which the earlier stages are already for the most part subject to direct public control. If the public authorities are to give generous help to the Universities, they will have to be assured that the Universities are adequately meeting public needs.

The increase in scholarships in recent years has already done not a little to make access to the Universities easier for the children of relatively poor parents. The very poor are still practically untouched, and will remain so at least until the facilities for secondary education have been greatly expanded. But even for those who now succeed in staying on at a secondary school, the scholarship facilities are still grossly inadequate; while the practice of granting scholarships to students who have got their further education in adult classes under the Workers' Educational Association and similar bodies is still in its infancy. A great increase in the numbers of scholarships granted either by the State nationally or by the Local Education Authorities to children of poor parents is therefore indispensable; and it will be part of a Labour Government's task to make the necessary resources available for this purpose.

No less important than the provision made by the Universities for internal students is their work in what is called 'extra-mural' education. Every University carries on some work of this sort, and conducts a number of tutorial classes for working men and women jointly with the Workers' Educational Association, as well as organising other 'extra-mural' activities, such as Extension Lectures. This work has been growing very rapidly in recent years, and has been helped from State funds and, to a less extent, by the Local Education Authorities. But Universities differ very greatly in the attitude which they adopt towards it. Many still treat it as quite a minor activity, unimportant in relation to their internal teaching. It is, however, clearly capable of being fully as important, and of reaching far wider circles than internal University work can ever reach. It ought to be far more largely helped by the State; but, in return for this help, the State ought clearly to insist that the Universities shall take this part of their work quite as seriously as any other part, and accord to it a status fully as good as that of the work carried on within the walls of the University. There ought,

moreover, to be a much more adequate provision of scholarships in order to enable men and women who have proved their worth in 'extra-mural' classes to come to the University for a period of full-time study. The pioneer experiments already made in affording these opportunities have amply proved their value.

The University is, or ought to be, a centre of research as well as teaching. This, too, is mainly a matter of money. At present, as we have seen, most University teachers have little time to spare for research from their teaching work, except in those scientific departments which are receiving special subsidies for carrying on particular kinds of research. The subsidies given by the State for various forms of medical, agricultural, and industrial research are excellent in their way, but are at present on far too narrow a basis, helping only a few departments and confined almost wholly to research work which has a clearly defined practical application in view. Pure science, though it is the foundation on which applied science must build, gets no help; and in subjects which are not practically scientific, in a very narrow sense of the term, there are no subsidies of any kind. Statistical and sociological work, for example, is carried on under impossible handicaps, in most Universities, for lack of any funds available for equipment or research. The narrowly 'scientific' departments also in some cases get help from Employers' Associations or from the Research Associations organised by employers in particular industries with aid from the Department of Scientific and Industrial Research. This help is often valuable; but in some cases it carries with it the danger of making a University department virtually the servant of a particular body of employers, who, helping to pay the piper, feel that they have a right to call the tune.

Clearly, a Labour Government, in its dealing with the Universities, will need to make funds more easily available for the development of research, and will need also to widen the scope of the research work regarded as eligible for help from public funds. Let me take one small but significant example. The Victoria County History is a work invaluable to historical students of every sort; but at present it is lying unfinished because there are no funds available for carrying it on. Its completion might well be paid for by the State; and the work might

well be placed in the hands of the Universities, or of a particular University, if that seemed the better course.

All these proposals for State aid to the Universities obviously carry with them the corollary of increased public control. In a sense, they clearly foreshadow the socialisation of the Universities, as integral parts of the national scheme of public education. But socialisation, in the sense in which the word has been consistently used in this book, does not imply any form of direct administration by the State. It does not involve, for example, that University professorships should become Government appointments (as a few of them in the older Universities unfortunately are now), or that the State should tell the University teachers how they are to do their jobs. The Universities should be socialised, not by handing them over to the Board of Education or the Local Education Authorities, but as going concerns. The right which the State now exercises from time to time, by special Act of Parliament, to legislate for the Universities on matters of policy should become a continuous right, to be exercised, subject to the final control of Parliament, by a standing Universities Commission with wide independent powers. It is the business of the University as a self-governing body to decide how to do its job; but it is the State's business to decide what certain of its jobs are to be, and to insist that in matters of policy the Universities shall meet the needs of the public educational system as a whole.

The Universities Commission, like the special Commissions which have sat in recent years to deal with the constitution of particular Universities, should have full power to revise all University constitutions, and to sweep away such abuses as the control exercised either by functionless non-resident graduates or by Councils composed largely of local business men. The Commission itself should have power to appoint representatives to the new governing bodies, and, no less important, to audit all University accounts, in order to ensure the proper use of endowments and of all grants made by the State. The University mind will doubtless be inclined to resent this suggestion, in the name of academic freedom. It is, indeed, vital to ensure full freedom of teaching. But this is far more easily reconcilable with the form of State control here proposed than with the present dependence of most of our Universities on the gifts of

rich men. It would doubtless be wrong for the State to interfere with the freedom of teaching, or to import party bias into the making of University appointments. But the State, under the system suggested, would be less likely to do this than either rich benefactors who want their money's worth in service rendered to capitalism or the parochial pundits who now tend to dominate the Councils of some University bodies.

Adult education has been mentioned as a growingly important University activity; but, of course, the greater part of it has no connection with the Universities. The Workers' Educational Association, which acts jointly with them in the most fruitful part of their 'extra-mural' work, conducts more classes by itself than in partnership with them; and there are numerous other bodies carrying on various forms of adult educational work. Some of these, as well as the W.E.A., receive a good deal of help, both directly from the Board of Education and from the more progressive Local Education Authorities; and, in addition, in some areas the Local Education Authorities, besides their technical courses, provide non-vocational adult classes of their own. Other bodies, such as the National Council of Labour Colleges and the Adult Schools, carry on their work without help from public funds; and so rapidly have these movements developed in recent years that there are now probably about 200,000 adult students who in the winter attend some sort of formal class of a non-vocational type.

From the standpoint of the Labour movement, all this educational work is of vital importance; for everything which serves to raise the general standard of education in the community also helps to make easier the transition to a Socialist system. Ignorance is Labour's greatest enemy—and not political ignorance alone; for every widening of the mental horizon of the people means a more intense demand for the improvement of social conditions and opportunities. Good taste in drama and literature, the extension of popular scientific knowledge, a better mastery of great historical movements—all these, as well as the spread of economic understanding, are nails in the coffin of the capitalist system. A Labour Government will not be able to interpret narrowly its duty to education as a whole, or to adult education in particular. It will need to give generous help to all bodies whose work is really contributing

to a widening of the mental equipment of ordinary men and women.

The Labour movement has, however, evidently a special interest in those parts of adult educational activity which are particularly directed to meeting the needs of the organised workers. Workers' education has made great progress in recent years; but the great working-class bodies are not yet half awake to the opportunities which it offers, or to their responsibilities towards it. Every Trade Union, every Co-operative Society, every working-class body of every sort should, one would naturally suppose, act as an energetic recruiting agent for workers' education. Yet, although a few Trade Unions and Co-operative Societies have adopted substantial educational schemes for their members, the great majority still do little or nothing to foster its growth.

To some extent, the quarrel between two rival schools of thought in working-class education has been responsible for this hanging back. The Workers' Educational Association, which is by far the largest and most influential working-class educational body, has been for years past subject to continuous attack from the Marxian National Council of Labour Colleges. The N.C.L.C. proclaims itself a partisan body, preaching 'proletarian' doctrine, and seeking to educate the workers in sound working-class economics. The W.E.A., on the other hand, draws a sharp distinction between education and propaganda, and holds that, while there is ample room for propagandist effort, in education the object should be to help the student to think for himself, and not to present him with a number of ready-made conclusions. This is the basis of its collaboration with the Universities, and its acceptance of grant aid from the State and from Local Education Authorities.

Personally, I find myself in agreement with the W.E.A.; for in practice, when I am confronted with a group of students, I am quite incapable of delivering to them a propagandist lecture. I can be a propagandist on occasion; but, as soon as I am placed in the position of tutor to a group of students, I am sure that my only possible course is to try to help them to think for themselves, and not to shove my own doctrines at them as things which they ought to believe or be damned. I do not conceal my own opinions; but the relation of teacher to student seems to

me one in which the teacher is false to his trust if he tries to make up the student's mind instead of leaving him to make it up for himself.

The Labour College propagandists feel differently about this. They feel that their task is to convert the working class to a real understanding belief in Socialism, and that education offers them one great chance of doing this. Education is for them a form of propaganda, whereas for the leaders of the W.E.A. the two things are clearly distinct.

The relevance of this discussion to the purpose of my book lies in the question whether, in aiding workers' education, a Labour Government will have to take sides between these two schools of thought, or is likely to be paralysed, as the Trade Union movement has been largely paralysed in its educational activity, by the controversy between them. That a Labour Government will give far more considerable financial help than its predecessors in office have given to the Workers' Educational Association I take for granted. But will it, or should it, also offer financial help to the Labour Colleges for educational work that is frankly propagandist in its object and method? If it does, there will clearly be other claimants for similar help. If the State aids educational propaganda in the Labour interest, it will be urged, it should equally aid educational propaganda in the Liberal or Conservative interest. If it pays money to the Labour College, why not to the Philip Stott College as well? Why not to the Catholic Social Guild, and countless other propagandist agencies which give their propaganda an educational twist?

In practice, I think this difficulty will probably prevent the State from giving grants to the Labour Colleges; for, if it does, where is the line to be drawn? This does not mean that the Labour Colleges may not be doing good work. Some of them are, especially in reaching types of workers to whom the classes of the W.E.A. make little or no appeal. But, at any rate, until we reach a situation in which Socialism is definitely dominant in the community, this sort of propagandist education will have to be carried on without help from public funds. To help it would open the door too wide to rival claims, and would be too plain an invitation to any capitalist Government to flood the country with State-aided anti-Socialist propaganda disguised as education.



A Labour Government will need, then, to confine its help to bodies which provide education of a non-propagandist kind. And I hope that, in addition to giving larger help to adult education, it will offer special inducements to the educational bodies to embark on far more extensive schemes of education for adolescents. Even when the school-leaving age has been raised to fifteen—a change which it will take some years to carry into effect—there will remain a long period of years between the time at which a boy or girl leaves school and the time at which he or she becomes eligible for membership of an adult class. At present this gulf is bridged almost solely by technical evening classes of a purely vocational character. It is, however, generally recognised that these years of adolescence are among the most formative in life, and that the boy or girl who leaves school at fourteen or fifteen may easily unlearn the habit of learning before there is even a chance of attracting him or her into an adult class of the types now provided. There is room for a great movement of adolescent education, designed to make the process of learning continuous from school to adult class; and it will be one of the tasks of a Labour Government to provide resources for the development of this work as fast as the educational bodies are prepared to take it up. They can do little with it at present, for lack of funds; but if State grants were made available for adolescent as well as for adult education, a great expansion of educational work would at once become possible in this field. Moreover, the result would be an immense improvement in the quality and the opportunities of adult education; for, instead of painfully attracting students who have forgotten how to learn, the adult education movement would find its way made smooth by the continuity of educational effort through the formative years of adolescent life.<sup>1</sup>

<sup>1</sup> In addition to the work of the voluntary educational bodies, a large and increasing amount of adult education is now carried out directly by certain of the larger Local Education Authorities, especially by the London County Council, through its elaborate system of Evening Institutes. Most of this work is technical or vocational, but it includes a growing element of non-vocational adult education of the more elementary sort. In the big centres, this work is likely to grow; but it is doubtful if it will spread much into the smaller centres, and in any case it appeals largely to different students from those who are attracted by the voluntary educational bodies, and deals largely with different subjects, or with subjects treated in a different way. Its growth in no way restricts the field for the expansion of the voluntary bodies.

This chapter is, of course, not in any sense a complete statement of educational policy. It pretends to deal only with those matters in which there seems to be a clear case for immediate action by the State. But I have tried in it to stress those points on which immediate action by a Labour Government seems to be imperatively demanded. If and when local government comes to be reorganised on a rational basis on the lines suggested in the last chapter, there is clearly no service more likely than education to benefit from the change. But to discuss this question would take me beyond the strict limits which I have set myself in this book. Similarly, I have not discussed at all the vital problem of self-government for the teaching profession; for this is less a matter for the central Government than for the teachers, whose task it is to press their claims on the Local Education Authorities throughout the country—and I have not attempted, in this book, to discuss the policy of the local authorities under a national Government controlled by Labour. These problems, I agree, are of vital importance, and I have written of both of them elsewhere. But my purpose at the moment is strictly delimited, and I have resisted the temptation to wander outside it. The main immediate duties of a Labour Government in the sphere of education will be these: to raise the leaving age to fifteen; to provide secondary education for all up to that age by carrying out the proposals of the Hadow Committee; to provide free places and maintenance allowances on a far more generous scale both for the new secondary schools and for the 'Grammar Schools', in order to enable far more children to remain at school up to eighteen; to bring the universities under public control, and at the same time to equip them with adequate resources for the improvement of their teaching methods, for the higher education of intending teachers, and for research; to provide a far larger number of scholarships, in order to enable the children of poor parents to go to the university; to give generous aid to adult education in all its forms, and to workers' education in particular; and to stimulate a movement of non-vocational adolescent education designed to bridge the gulf between the school-leaving age and the period at which adult education can profitably begin. This is an ambitious, but strictly practicable, programme of educational reform. It is, on a long view, only a small beginning; but it would be enough to lay truly

the foundations of an educational system compatible with Socialist ideas, and to strike a powerful blow at that spirit of snobbery which is nowhere more devastating than in the educational sphere. It would not establish educational equality or abolish class distinctions; but it would be, at the least, a long step in the right direction.

## CHAPTER XVII

### THE LABOUR BUDGET—DEBT AND TAXATION

Changing attitude towards the problem of taxation—Taxation as an instrument for the redistribution of income—The level of taxation before and after the War—The growth of national expenditure analysed—How the national revenue is raised—The National Debt—The problem of debt conversion—Repudiation impossible—The Capital Levy—The Colwyn Report and the proposed surtax—The Sinking Fund—The case for its suspension—The American debt—The Socialist way of wiping off the debt—The taxation of inheritance—The Death Duties—The Rignano Scheme—Dr. Dalton's proposals—A plan for the abolition of inheritance—The case of landed estates—Income tax and surtax—Suggested revision of the taxes on incomes—Customs and Excise—The incidence of indirect taxation—The liquor taxes—Tobacco—Sugar and Tea—Other indirect taxes—Protective duties and their yield—Prohibition of imports preferable to a tariff—Repeal of protective duties—Socialism and Free Trade contrasted—Luxury taxes—The effect of the proposed changes in taxation as a whole.

Of all the Ministers in the next Labour Government, it is obvious that the Chancellor of the Exchequer will have by far the most difficult task. Other departments spend money: he has to provide for raising it. And no matter how excellent are the uses to which the tax revenue of the country is put, no one enjoys paying taxes. Moreover, as we have seen, it is not easy, under the present economic system, to tax the luxury expenditure of the rich without at the same time affecting their willingness to provide out of 'saving' the new capital which is urgently needed for the work of national development. The rich spender hides behind the rich saver, and defies the efforts of the tax-gatherer to sequester his unproductive surplus. His power to do this can be counteracted if the right measures are taken; but the need to counteract them makes the problem harder and more complicated than many Socialists admit.

The time has long gone past when taxation was regarded merely as a necessary evil, to be kept down to the minimum at all costs. It is now recognised that, under present conditions, it is not only the sole means of meeting unavoidable State expenditure, but also a valuable instrument for the redistribution of the national income. More taxation is a positive good if it results in diverting resources to better social uses. The older economists were in the habit of looking on the sums levied in taxation as sheer deductions from the real income of the community, and any increase in them was accordingly treated as an unmixed evil. They were not wholly without justification in the circumstances of their time; but the growth of social services in the modern world has put a quite different complexion on the matter. We are now well aware that in judging a tax system we must have regard not only to the amount of taxation and the ways in which it is levied, but also to the uses to which the money is put. For the effect of taxation is not to destroy income, but to transfer the right to its use; and the issue is therefore whether the increase of taxation is likely to lead to greater or less happiness in the community as a whole.

This, of course, is only one side of the question. It is not enough to justify a tax that it results directly in a desirable transference of income. It may have other indirect results which more than offset this advantage. It may, for example, be so unfair in its incidence as to provoke justifiable resentment; it may result, indirectly, in destroying wealth to an extent that more than neutralises the advantages of redistribution; or it may so hamper production or the creation of capital as to be disastrous. But these are arguments against particular taxes, and not against high taxation of the right sort; and as long as a Chancellor of the Exchequer can find sources of revenue which are not open to these objections, or can remove the objections by applying the right correctives, he ought to go on raising the level of taxation as long as he is able to promote by its means a better distribution of the national income.

The present level of taxation in Great Britain is, on the face of it, high. In the year before the War our national revenue from taxes amounted to £163,000,000, or about seven per cent of the estimated national income. For the year 1927-1928 the total receipts from taxes were £693,000,000, or perhaps sixteen per cent

of the national income.<sup>1</sup> Thus, our taxes were four times as great in nominal amount, and more than twice as heavy in their apparent incidence, as before the War. At the same time, local rates also rose, though not to the same extent. In 1913-1914 they amounted to £79,000,000, and in 1926-1927, when they were swollen by the coal stoppage, to £180,000,000. In the previous year they were £166,000,000, or rather more than double the pre-war amount. Before the War, rates amounted to about three and a half per cent of the national income: to-day, according to the *Economist's* estimate, they amount to about four and a half per cent. Rates and taxes together thus stood at between ten and eleven per cent of the national income before the War, and stand at over twenty per cent to-day. The apparent burden of national and local taxation, taken together, has been nearly doubled.

This appearance, however, cannot be taken for reality without substantial qualification. For a very large part of our present high taxation is accounted for by the huge debt piled up during the War. In 1914 the net nominal value of the National Debt was £668,000,000, or less than a year's tax revenue to-day. In March 1928 it had risen to £7,688,000,000. In the last pre-war year our expenditure on National Debt services was £24,500,000: in 1927-1928 it had risen to nearly £379,000,000, and the estimate for the year 1928-1929 was £369,000,000, or not far short of half the estimated ordinary expenditure for the year. Of this last sum, £65,000,000 was allocated to the repayment of debt; but about £300,000,000 was for interest, of which the greater part is paid back to the same people who have been called upon to bear the high direct taxation which it demands. We must not, of course, suggest that this taxation is not a burden; for we have counted the sums received in interest on the debt in our estimate of the national income. But if we deduct this sum, which represents no real wealth, from the effective income of the community, and then deduct it from the amount of the taxes, we reach a very different conclusion about the real relation of taxation to the wealth of the country. At any rate, the taxation levied in order to pay interest on the debt is not spent by the Government, but

<sup>1</sup> In considering these, and all other, comparative figures given in this chapter, the change in the level of prices has, of course, to be taken into account.

paid straight back into the private incomes of the members of the community, and chiefly to the richer classes.

If debt services are omitted, our national expenditure will be found to have risen from £173,000,000 in 1913-1914 to £460,000,000 in 1927-1928. It is less than three times, and not, as appeared from the revenue figures, four times as great as before the War. And of this sum, a large part goes on the maintenance of the fighting services. In 1913-1914, when we were at the height of a long period of preparation for the world war, we spent on these services £77,000,000. In 1927-1928, a decade after we had fought the 'war to end war' to a triumphant finish, the fighting forces cost us well over £117,000,000. Civil Services, including the cost of maintaining government, law, police, and foreign and colonial establishments, as well as the 'social services', cost us £54,000,000 in 1913-1914, and £230,000,000 in 1927-1928. We are spending less, relatively, on the fighting forces and substantially more on social services than in pre-war days; but the former still form far too large, and the latter far too small, a part of our total annual expenditure. On the basis of Mr Churchill's estimates for 1928-1929, out of an estimated total ordinary revenue from all sources (not taxes alone) of £756,000,000, nearly £484,000,000, or sixty-four per cent, is to go on two things alone—the fighting forces and the service of the National Debt. As against this, education, health, labour, insurance, and pensions of all sorts together account for less than £185,000,000, or under a quarter of the total. This is obviously a most unsatisfactory position.

The position becomes even more unsatisfactory when we consider how the revenue needed to meet these charges is raised. In the year 1927-1928 Great Britain raised £416,000,000 by direct, and £278,000,000 by indirect taxation. In other words, sixty per cent of our taxation was direct, and forty per cent indirect. It is true that before the war the proportion was about fifty-fifty; but since then the situation has radically changed. The National Debt charge is obviously one which ought to be met out of sharply graduated direct taxation, as it represents preponderantly a claim of the rich upon the future labour of the community—a claim which the rich ought to meet. Apart from any other factor, therefore, direct taxation ought to be relatively much higher than it is, for if we treat the debt charge as being met from this source,

there is only £37,000,000 left as the contribution of direct taxation to all other charges of government, including the fighting as well as the Civil services. Moreover, since 1914, while the social services have been expanded, the wage-earners, on whom a large part of the burden of indirect taxation falls, have been subjected to special charges on their incomes for the development of new schemes of social insurance. They are clearly now paying far more than their fair share of the total national expenditure. And the proportion of indirect taxation is rising. In the Labour Budget year, 1924-1925, it was thirty-seven per cent. For the year 1928-1929 Mr. Churchill had already raised it to well over forty per cent.

A Labour Chancellor of the Exchequer will be faced with the necessity for finding a large amount of additional revenue. This need will arise at once when the Labour Government assumes office, and it will be progressive as its schemes for national regeneration and development are put gradually into force. As these measures produce their effect in a revival of industry, the yield of taxation is likely to improve fast, and to help solve the Chancellor's problem for him. But in the early years of Labour's tenure of office the position will obviously be difficult, and it will be necessary both to find new sources of revenue and to retrench drastically on uneconomic expenditure that is now being incurred. Let us deal first with that part of the present expenditure which seems, on the face of it, to offer the plainest invitation to retrenchment.

The service of the National Debt bulks so large in our national spending that it clearly demands first consideration. In 1914, as we have seen, the net nominal value of the National Debt was under £700,000,000. At the end of March 1919 it was £7,400,000,000, or more than ten times as much. And in March 1928, it was £7,688,000,000, or substantially more than in 1919, although about £800,000,000 had already been applied to debt reduction. This has occurred mainly because Chancellors of the Exchequer, in converting short-term debt, have sought to put more of the burden on posterity by issuing conversion loans below par, thus saving in immediate interest payments at the cost of incurring a heavier capital liability. According to the Colwyn Report, the net decrease in interest charges between 1920 and 1926 amounted to £19,000,000. But between these dates Great



Britain made her funding agreement with the United States; and this involved an increased annual charge of £28,000,000. The decrease, apart from this, was thus £47,000,000. But of this 'saving' about £30,000,000 was due to debt repayment and about £12,000,000 to the lower rate of interest on short-term borrowings in the form of Treasury bills. £4,000,000 is traced by the Colwyn Committee to other causes, and only about £1,500,000 to the effect of conversion operations. It is, however, true that, in view of the lower interest rates now prevailing, it should be possible to make substantial further savings by means of conversion. The Colwyn Committee estimated that, if debt falling due for repayment could be converted to a four per cent basis, a saving of £32,000,000 a year might be effected in interest charges before 1932. This saving would, of course, not be a net amount, as the State would lose the equivalent of the taxation now levied on the higher interest.

In this connection, the critical dates are in June and October 1929, when the State can, if it is in a position to do so, exercise its option to repay no less than £2,253,000,000 of the outstanding debt. Over £2,000,000,000 of this consists of the great five per cent War Loan, and the rest of the four per cent tax-free War Loan. These great blocks of debt need not be repaid until 1947; but clearly, if the State could exercise its option during the present year, it might gain a very great advantage. Over £22,000,000 a year would be saved to the State in interest if these loans could be replaced by new loans bearing interest at four per cent. It might, of course, be possible to achieve this reduction in the immediate interest burden only at the cost of some increase in the capital amount of the debt, or it might be possible to achieve it by means of a new four per cent issue at par. Or it might be possible to bring down the rate of interest only to four and a half per cent, thus halving the amount of the saving.

On the handling of this situation mainly depends the prospect of any great reduction in the annual burden of the National Debt during the next ten years; for the remaining debt falling due with this period is, by comparison, of small amount. Apart from the floating debt, the interest on which varies from month to month with current market conditions, well over two-thirds of the possible saving in interest during the next twenty years

depends on the prospects of converting the four and five per cent Loans which fall due in 1929.

The City was for some time busy with rumours of Mr. Churchill's intention to bring off a sensational coup by arranging for the conversion of the debt just before the General Election of 1929. Rumour said that he was endeavouring to arrange with Morgan's, the great American financial house, to help him through with a gigantic operation designed to bring down the interest charge. But recently little has been heard of these rumours and, up to the present, City opinion has been sceptical of his power to effect any great saving, or even of the likelihood of any sharp fall in the interest charge for some time to come.

Even, however, if this reduction in the interest charge were achieved, either under Mr. Churchill or under his successor, the debt service would remain by far the heaviest single burden upon the national revenue. Some Socialists have suggested a drastic dealing with the situation by total or partial repudiation of the debt—that is to say, either by ceasing to pay interest on it at all, or by arbitrarily reducing the interest paid without reference to market conditions or the period of currency of the various loans. But neither of these courses is any more likely to be adopted by a Labour Chancellor of the Exchequer than by a Conservative Chancellor. Total repudiation could take place only in a revolutionary situation, such as arose in Russia in 1917; and such a situation has been explicitly ruled out of discussion in this book. Partial repudiation, by reducing the rate of interest, seems more arguable on the face of it, as much of the debt was borrowed or acquired when money was of far less value than it is now, and many of the debt-holders are therefore drawing an unearned increment due to the fall in prices.<sup>1</sup> But so, equally, are the holders of many other fixed interest securities, and there has been ample time for most of the debt to change hands since prices fell, as well as earlier. There was a good deal to be said for an arbitrary reduction in the rate of interest, corresponding to the fall in prices, a few years ago; but it is not practical

<sup>1</sup> It is true that some of the Debt was borrowed when prices were lower than they are now. But this point is relatively unimportant. Most of the money lent to the State to pay for the War was easily gained money artificially created by the process of war-time inflation.

politics now. A Labour Chancellor of the Exchequer will have, like his predecessors, to provide for the payment of full interest on the debt, only seizing any opportunity that offers for its conversion to a lower rate. The difference will be that he will be far more intent to secure that the taxation needed to pay the interest will be provided by the classes that get the benefit. At a later stage, when we come nearer to Socialism, the possibility of wiping off the debt by a dramatic stroke, such as the abolition of inheritance or a drastic Capital Levy, may return; but it does not exist to-day, and is not likely to arise within the next ten years.

The Capital Levy, strongly urged by the Labour Party during the years immediately following the war, was never a measure of discrimination against the holders of debt. It was a proposal for a general levy on the accumulated wealth of the community, designed to wipe off the fictitious national capital constituted by the debt. It was at the time, I believe, a thoroughly justifiable and economically sound expedient; and it ought to have been adopted. But it is now generally recognised that, for the present at least, the time for it has gone past. Instead of writing down the debt, we have written down real capital values by the method of financial deflation, and have thus virtually written up the debt and made its holders a huge unnecessary present. It would have been easy to carry through a big levy on capital in 1919 or 1920; but now, in face of the depreciation of other values, this could be done only on a scale that would not be worth while, and probably at the cost of adding still more to the value of the large mass of debt which would survive the operation.

Recognising this fact, the Labour Party, about a year ago, replaced its proposal for a Capital Levy with a new tentative plan for a surtax on unearned incomes. This plan, as originally proposed by the Labour minority on the Colwyn Committee, was explicitly designed, like the Capital Levy, for the reduction of debt; but, as it was subsequently put forward by the Labour Party, it became a plan for securing increased revenue for both debt reduction and the expansion of social services. In practice, the change made very little difference; for, whatever nominal earmarking of tax proceeds might be made for window-dressing purposes, in fact all national expenditure has to be paid for out of a single pool of revenue. Moreover, the surtax, as a new and

special tax, seems now to have disappeared. Mr. Snowden, speaking at the Labour Party Annual Conference in October 1928, rightly said that all the results at which it aimed could be achieved by a revision of the existing rates of tax on the larger incomes, without any need for the imposition of a special tax.

Clearly, the important question is not the allocation of the proceeds of this or that particular tax to the redemption of debt, but how much debt in all we mean to redeem. The majority of the Colwyn Committee suggested that the Sinking Fund should be raised at an early date to £75,000,000 a year; and the minority, in proposing the surtax, suggested that it should be raised to £100,000,000. Mr. Churchill, in his Budget for the year 1928-1929, finally allocated £65,000,000, including in this the special sinking funds attached to particular parts of the debt.

A non-cumulative Sinking Fund of £75,000,000 a year—*i.e.* a fund not augmented by the saving in interest charges as the debt was gradually paid off—would take, roughly, a century to liquidate the debt, and might take considerably longer, if conversion operations added substantially to the nominal capital, or if price conditions were adverse to repayment. Say that in fifty years it would have halved the debt and the interest charge upon it. Who knows what will have happened in fifty or a hundred years? I sincerely hope that by then the world will look back on war debts of this sort as hideous nightmares of a barbaric past, and wonder how their ancestors were ever fools enough to tolerate such preposterous claims upon the product of their labour. The whole project of wiping off debt by this means is absurd. It will take us about a quarter of a century to save in interest, by debt redemption, the amount we are spending on debt redemption in one year now.

Despite the orthodox financiers both in and outside of the Labour Party, I am therefore of opinion that a Labour Government should not at present make any attempt to pay off the debt at all. It should make every possible effort to save interest by conversion operations as the chance offers; but it is simply not worth while, even if debt redemption does to some extent make conversion easier by enhancing the value of the remaining debt, to pay £100,000,000, or £75,000,000, or even £65,000,000 a year for this doubtful advantage, when within less than fifty years we can have within our grasp far more effective methods

of wiping out the entire debt without incurring this grievous burden.

I suggest, then, that a Labour Chancellor of the Exchequer, needing money for desirable works of national development, ought not merely to raid the Sinking Fund, but to wipe it out altogether, except for such special sinking funds as are absolutely beyond his control.<sup>1</sup> Trying to pay off a debt of the magnitude of that which Great Britain now owes by means of an annual Sinking Fund is a ridiculous game. The chief value of such a policy accrues, not to the nation, but to the holders of large blocks of the debt, whom it suits well to have its capital value maintained by this means at the taxpayers' expense. For, of course, repayment tends to make the debt scarcer, and therefore to enhance its value; while debt likely to be repaid before long at par cannot sink under any circumstances far below par value.

The difficulty of this policy arises largely from the fact that a large part of the present Sinking Fund is earmarked under previous Finance Acts for repayment of particular loans. The repayments to America, which clearly cannot be touched, will amount, in 1930-1931, to over £5,750,000. A further £6,000,000 is attached to the four per cent Funding Loan and to the Victory Bonds issue, and a fluctuating amount, calculated to bring the total of earmarked sinking funds up to about £33,000,000, is allocated to other loans. Thus, even if all the money now devoted to the Sinking Fund, with these exceptions, were taken by the Chancellor of the Exchequer for other purposes, the amount so freed would be not £65,000,000, but more nearly £30,000,000. In order to free more than this, the Chancellor would have to suspend the special sinking funds attached to the three and a half per cent Conversion Loan and the four per cent Funding Loans; and it would be unwise to do this until the conversions possible in 1929 have been safely carried into effect. Indeed, the entire policy of abandoning the Sinking Fund would be better postponed until after a large conversion of debt has been carried through. Thereafter, the holding up of the capital value of British Government securities will matter less. Indeed, this holding up of value will become an impossible policy if the Government is successful in bringing about a substantial revival

<sup>1</sup> The most important item beyond his control is the provision for gradual repayment of the capital of the American debt.

in trade; for the high price commanded at present by gilt-edged securities is largely the consequence of trade depression. It is therefore important to convert while the depression lasts, but not to maintain artificially the value of Government securities when the utmost saving possible through conversion has been made.

The correct, Socialist, way of dealing with the debt is not that of buying it up, or repaying it, but that of wiping it out as part of a general plan of expropriation of inherited wealth. The socialisation of industries on a basis of compensation is, as we have seen in an earlier chapter, only a first step towards the socialisation of the wealth which now flows to their owners. The next step is to appropriate this wealth; and death duties, expanded into a more far-reaching scheme of taxation on inheritance, are the most obvious means to this end.

The Colwyn Committee to some extent discussed the development of death duties as a means of extinguishing the debt. The majority, on the whole, poured cold water on the idea, while the minority favoured both a revision of the existing death duties so as to increase their yield and the adoption of new forms of taxation on inheritance, based on the well-known scheme of Professor Rignano, or on some adaptation of it.

At present, the burden of the death duties depends mainly on the size of the estate. Estate Duty is by far the most important of the three taxes grouped under the name of death duties. It varies with the value of the estate, estates under £100 value paying nothing, estates up to £500 one per cent, and so on up to the maximum rate of forty per cent on estates of over £2,000,000. Five per cent is reached at £10,000, ten per cent at £25,000, twenty per cent at £100,000, and thirty per cent at £1,000,000. Legacy and Succession Duty, both of which are not leviable on the same property, are minor affairs, varying not with the size of the estate, but with the relationship of the beneficiary to the legator. Husbands, wives, children, fathers, mothers of the testators pay one per cent, brothers and sisters and their issue five per cent, and all other beneficiaries ten per cent. There is an exemption limit of £15,000 in the case of the first class of beneficiaries alone.

Much argument takes place about the incidence of death duties. Do they fall on the testator, or on the beneficiaries? In

theory, Legacy and Succession Duty are clearly meant to fall on the beneficiary, while Estate Duty has usually been represented as a tax on the testator—a sort of deferred income-tax, which the prudent man will bear directly as a charge on his income by means of insurance. But the distinction is in fact unreal. It is at the testator's discretion whether to insure or not, and, if he does not, his heirs in effect pay the tax. Moreover, even if he does insure, he may deduct the premiums from his annual saving rather than from his spending, and so reduce the amount which he leaves at death. The proper way of regarding Estate Duty is not as a tax on testator rather than legatee, or *vice versa*, but as a means whereby the State can assume the ownership of capital now in private hands.

If this is the correct view, it follows that the State should treat the yield of Estate Duty as capital and not income. This distinction may not be important as long as the amount of the duty is small. But in the year 1927-1928 the death duties together yielded £77,000,000, and in the year 1928-1929 they were estimated to yield £72,000,000. These sums exceed the total amount set aside for the redemption of debt—in other words, we are not at present redeeming debt at all out of income, but only out of the capital of those who die. In suggesting that a Labour Chancellor of the Exchequer might raid, or wipe out, the Sinking Fund if he needed money for social development, I am not unmindful of this fact. Clearly, the £72,000,000 from death duties and the sum taken from the Sinking Fund ought to be balanced by an equivalent expenditure of a reproductive kind, by a creation of State-owned wealth designed to increase production and stimulate economic activity.

Still more will this be the case if the taxes on inheritance are raised, as it seems clear they must be if the work of socialisation is to proceed. For they will have to be used in such a way as gradually to bring the productive capital of the nation under public ownership as well as public control.

How then can the taxes on inheritance best be stiffened up? One way—the way followed in previous increases—would be merely to raise the amount of the existing duties, and to introduce, in the case of Estate Duty, a still steeper graduation, and, in the case of the other duties, a sharper differentiation between bequests to near relatives and to distant relatives or strangers.

A further suggestion is that Estate Duty should be graduated according to the wealth of the beneficiary as well as, or instead of, the testator. But it would be very difficult, by any modification of the duties along these lines, to carry through any considerable scheme of socialisation.

What the Socialist wants to do is not to tax inheritance, but to abolish it in its present forms. He does not wish to abolish private property; but he does wish to make it innocuous by limiting it drastically in amount, and by preventing its owners from using it for the control of the labour of others and of the vital means of production. Similarly, the Socialist does not want to abolish inheritance altogether, but he does wish to restrict it within narrow limits, and to prevent absolutely its use as the means of enabling anyone to live in idleness on the product of the labour of others. The so-called 'Rignano' scheme of taxation of inheritance is attractive to Socialists because it is really more than mere taxation, and approaches the abolition of inheritance in its present dangerous form. Briefly, what Professor Rignano suggests is that inherited property should be taxed out of existence in three generations. "The State would not levy on the portion [of the testator's estate] due to his labour and thrift any higher duties than it imposes to-day. On the portion which the deceased inherited directly from his father the nation would make a much heavier levy, say fifty per cent. On the portion which came to him from his grandfather through the medium of his father, there would be laid a very heavy tax, possibly one hundred per cent."<sup>1</sup> In other words, inheritance would be allowed for one life subject to the ordinary duties, for a second life at a higher rate of duty, and thereafter only at a very high rate of duty, if at all.

A variant upon this scheme has been proposed by Dr. Hugh Dalton in his evidence before the Colwyn Committee. He suggests that, over and above the existing death duties, a supplementary charge at a fixed rate should be levied on all beneficiaries. This would be payable in either cash or approved securities, and in return for it the beneficiary would receive from the State a terminable annuity of, say, four or five per cent on the capital amount subject to the tax. This annuity being extin-

<sup>1</sup> *The Social Significance of Death Duties*. By E. Rignano, adapted by Sir Josiah Stamp, p. 38.



guished at his death, the entire value of the estates subjected to this form of taxation would become national property without any charge upon it. Thus, up to the amount of the tax, the inheritance would be wiped out at the end of one life, instead of two, as under the Rignano scheme. It does not, however, appear that Dr. Dalton contemplates a tax at the hundred per cent rate. The advantage of his plan is that it produces a more immediate transference of property to the State.

There are admittedly difficulties in all these schemes. The present death duties are high enough to lead to many attempted evasions, and probably a good deal of the property that would normally be liable to taxation actually escape by means of gifts *inter vivos*. Higher taxation would naturally lead to more determined attempts lawfully to avoid, or unlawfully to evade, the charge. Rich people would tend to give away more of their property to their children, and to give it sooner in order to escape taxation by lawful means. A closer scrutiny of estates, a more watchful eye on gifts, and a pushing back of the period before death that a gift must have been made in order not to incur taxation, would clearly be necessary. But additional means of making the closer scrutiny needed would also be accumulating in the hands of the State as, by various forms of socialisation and control, it assumed the direction of a larger and larger part of the means of production. It is always difficult to make people pay taxes. The collection of income-tax was once very inefficient in this country, and is still inefficient in America and France. It used to be said that it could not be made efficient without intolerable inquisition into people's private affairs. But in fact it has been made extremely efficient; and the inquisition, even if it is not liked, is nowadays accepted by everyone as a matter of course. In the same way, the effective collection of taxes on inheritance can be achieved, though it will inevitably take time to get a really satisfactory system into being.

A Labour Government will not have to choose between the present system of death duties and the Rignano scheme. The two are perfectly compatible, and are so designed as to supplement each other. It can, in the first place, make the graduation of the present Estate Duty steeper in the middle and higher ranges of estates. There is no reason why the tax should not rise a good deal more sharply on estates of more than say £20,000, and again

on estates of over £100,000. The advantage of such a change is that it will be immediately productive of revenue. At the same time, the duties on bequests to persons other than near relatives could well be made a good deal higher, though a very sharp rise would probably defeat its object by inducing testators to leave their property to a near relative, wherever possible, with private instructions for its subsequent disposal.

Side by side with these changes, a form of 'Rignano' taxation could be introduced, probably with some modification along the lines suggested by Dr. Dalton. Thus, on the first inheritance, all large estates would pay the ordinary Estate Duty, and in addition a supplementary tax, of, perhaps, fifty per cent of the sum remaining after the deduction. This supplement would be payable in cash or approved securities, and in return for it the beneficiaries would receive terminable annuities yielding an income based on the amount paid corresponding to the rate of interest on Government securities at the time of the death. This part of the estate would thus be wiped out after one life. The remaining fifty per cent would pass to the beneficiary as his property, but would become liable at his death, not only to the ordinary Estate Duty, but, as to the remainder, to taxation at the rate of one hundred per cent, subject to a terminable annuity calculated on the same basis as above, but limited to half the net value. This remainder of the estate would thus be wiped out, as to more than one half at the end of the first life, and completely at the end of the second life, after the original inheritance. And, as duties of this magnitude would clearly be paid largely in the form of securities or mortgages rather than cash, the State would, all the time, be acquiring large masses of property, and thus progressively carrying on the work of socialisation. Incidentally, the property handed over to it would obviously include a very large part of the National Debt. This it could either cancel, replacing it, as far as necessary, with new borrowings for productive purposes, or hold, or market again, to the extent thought desirable in order to keep the supply of gilt-edged securities available for investors and business men at an appropriate amount.

There is, in this scheme, no difficulty greater than the building up of the present income-tax system has involved in the past. Indeed, because the income-tax has been built up and its records exist, the difficulty is very greatly diminished. Even the Inland

Revenue and Treasury officials who appeared before the Colwyn Committee did not suggest that the Rignano scheme, or the suggested modifications of it, were impracticable on account of the difficulty of collection.

Inheritance is the great perpetuator of gross social and economic inequalities. It makes possible the existence of an idle rich class, and is the foundation of most of the incomes even of the busy rich. To destroy inheritance is to strike the greatest of all blows for social equality. This involves, of course, the making of alternative provision for the conservation and accumulation of capital. If private inheritance is to be gradually abolished, the State must become the rich man's heir, and must make provision for conserving and developing the productive resources which have hitherto accumulated in his hands. Socialisation and the abolition of large-scale inheritance go together; but with the strictly limited inheritance of personal possessions there is clearly no case at all for any attempt to interfere. On the contrary, the right course is to make this sort of inheritance universal. At present, nine people out of ten die leaving practically nothing. As the standard of life is raised, nearly everyone will have something to leave, and from none of these small personal bequests should anything be deducted by the State.

The objection is often put forward, both to the existing death duties and, still more, to any suggestion for raising them, that the taxation of inheritance bears hardly on landed estates and family businesses. That it involves the break-up of landed estates, where the owner has not other forms of property sufficient to meet the charge, is obvious. But why not break up such estates? They are in any case due to be broken up by the socialisation of the land. The case of privately owned businesses is somewhat different, for they cannot be broken up without economic loss. In these cases normally the remedy is for the State, as mortgagee, to become part owner of the capital used in the business. The Government should be ready, subject to proper valuation, to accept payment of duty in this form, and thus to push socialisation into the realm of private businesses by this means as well as by those suggested in earlier chapters. The taxation of inheritance, however heavy, need not involve the placing of large masses of property in the market. The State, by taking payment in securities or in part-ownership of going concerns, with a first claim on their assets,

can accomplish the transference of property rights without disturbance to the market. This, of course, is on the assumption, which I have made throughout, that the State uses the yield of these taxes not as revenue to meet ordinary current expenditure, but definitely as a means to the progressive socialisation of the means of production.

From the taxes on 'capital' let us now pass to those which are definitely levied on incomes, and used normally to meet current expenditure. Clearly, of these taxes, income-tax and supertax, or surtax as it is now called, demand first consideration.

In the last year before the war, income-tax and supertax together yielded rather over £47,000,000. In the year 1927-1928, income-tax yielded over £250,000,000 and supertax over £60,000,000. From under thirty per cent of the total tax revenue they had risen to nearly forty-five per cent. This great increase has been made possible mainly by a sharp rise in the standard rate of taxation, but also by the development of the surtax, by a lowering of the real exemption limit in relation to the movement of prices, and by a greatly increased stringency of collection.

Mr. Philip Snowden, speaking about his plans for a Labour budget at the party conference of 1928, said that in his view no considerable increase of revenue could be looked for from the income-tax at present. Certainly, there is no room for any considerable rise in the amount of the tax on the lower ranges of earned income. But the existing differentiation between earned and investment income is certainly far too small, and there is obviously room for increased taxation of the larger investment incomes even below the surtax level of £2000 a year. The other chief reforms needed in income-tax law include its adaptation to catch those forms of real income which are now disguised under the form of 'capital appreciation', and the granting of special allowances to parents of small means who keep their children at school beyond the ordinary leaving age. But on the whole Mr. Snowden is right in holding that any big increase in the yield of the taxes on incomes must be sought rather from an extension of the surtax than from any considerable rise, at the present stage, in the standard rate of income-tax in the narrower sense. By steepening the graduation of the surtax, and

by gradually raising the rate throughout all ranges of income liable to it, a considerably increased revenue could be secured from this source.

As we have seen, the argument commonly advanced against this heavier taxation of the larger incomes is that it will tend to dry up the stream of new capital, because the main source of capital accumulation to-day is to be found in the 'savings' of the rich. But we have seen already that this is not the main source, or even an important source at the present time, of new capital for the development of British industry, which is financed far more by the internal accumulation of reserves than by the investment of individual savings. It has been suggested that this method of internal accumulation is, for normal development as well as for ordinary depreciation, the sounder way, and that if necessary the allocation of a substantial part of business profits to reserve should be made compulsory by law. It has further been suggested that, if higher taxation does hinder British industry from getting the further capital which it needs from outside sources, the difficulty can be met, in the first place, by the control of new capital issues so as to direct the limited resources available into the most socially desirable enterprises, and secondly by the State directly financing, out of loans which will appeal to the middle and smaller investors, those enterprises which need new capital for necessary reconstruction and development, and are unable to get it from other sources on sufficiently favourable terms. This question having been fully discussed in an earlier chapter, there is no need to repeat the arguments here.

The proposal for a higher surtax does, however, raise the question whether the undistributed profits of companies and other business enterprises should be subjected to this tax. At present, as we have seen, standard income-tax, but not surtax, is payable on such reserves, with the result that the richer shareholders pay less, and the poorer shareholders more, than if the retained profits were distributed to them in the form of individual incomes. The imposition of surtax, at an arbitrarily fixed rate, on these profits, would tend to remove the advantage which now accrues to the richer shareholders, but only at the cost of aggravating the injustice to the poorer. Moreover, if it had the effect of discouraging this form of capital accumulation, it would

produce results highly undesirable socially and inimical to business efficiency.

This question arose in an acute form when the minority of the Colwyn Committee, and later the Labour Party, put forward their proposal for a special surtax on unearned or investment income. This plan, as we have seen, was first advanced by the Colwyn minority, purely as a special expedient for the repayment of war debt, but was subsequently modified by the Labour Party in such a way as to destine the proceeds for the development of social services as well as for the liquidation of debt. In both cases it was proposed that company reserves and all forms of undistributed profits should be subjected to the tax. Strong objection was taken to this both by critics of the proposal as a whole and by some who supported it in other respects.

There is force in the objection—so much force that it will almost certainly be better, in view of the desirability of encouraging the internal accumulation of capital, to exempt all reserves from payment of the surtax. But, if the rich are to be allowed directly to gain this advantage, other means must clearly be found of redressing the balance without removing the incentive to accumulate capital in this socially advantageous way. Such means are not difficult to discover. If the rich escape graduated taxation on this part of their real incomes, they are in a position to bear still more steeply graduated taxation on the remainder; and this steeper graduation will itself serve as a further inducement to collective accumulation by way of reserves.

The special surtax proposal put forward by the Labour Party in 1927 thus disappears as a separate proposal, and is merged, as Mr. Snowden has suggested, in a reform in the rates of income tax and surtax. Greater differentiation between earned and unearned incomes for income-tax purposes, and a heavier and steeper surtax on the large incomes, can be made to achieve all that the minority of the Colwyn Committee had in mind.<sup>1</sup>

After the taxes on income, the most important sources of public revenue are the customs and excise duties, which yielded

<sup>1</sup> Of course, in the long run the effect of a policy based on the drastic taxation of large incomes and of inheritance is bound to be a heavy fall in the yield of these forms of taxation. But in the meantime the State, by the acquisition of the taxed capital values, will have built up for itself alternative sources of revenue.

a net return of £75,000,000 in 1913-1914, and of £240,000,000 in 1927-1928—roughly the same as in the preceding year. According to the classification adopted by the Commissioners of Customs and Excise, in 1926-1927, £229,500,000 of this yield was due to 'revenue' duties, and only £10,500,000 to 'protective' duties. Before the War, of course, this latter class of duties did not exist at all. Among the revenue duties, by far the largest yields come from alcohol and tobacco. The duties on beer had risen from £13,500,000 before the War to £84,000,000—a rise of over five hundred per cent; those on spirits had risen from £24,000,000 to £43,500,000, or by eighty per cent, the much smaller rise being largely due to a big fall in consumption. The actual rise in the rate of these duties is not so easy to calculate, as the classifications and incidences have been changed. But it is evident that beer, a poor man's luxury, is bearing an enormous proportion of our present tax burdens, actually yielding, in the year under review, £20,000,000 more than the whole revenue from the supertax. Through this one tax, the working classes are making an enormous contribution to the costs of government. The State nationally is spending less than £50,000,000 on education, according to the budget estimate for the current year. It is getting well over £80,000,000 from the tax on beer alone.

The liquor taxes as a whole are, of course, designed mainly to yield revenue, but also to discourage consumption. They achieve this second result to a considerable extent, especially in the case of spirits. But they achieve it at a severe cost. The working-class household, whose head insists on his supply of beer despite the tax, has, in many thousands of cases, to go short of something else that is sorely needed. The tax falls largely on the necessities of the poor in this indirect way. It may cause the moderate drinker to reduce his consumption still more, or to abstain altogether; but in the case of the intemperate drinker it falls on the food and clothing of his wife and children.

The duties on the ordinary light beers ought, therefore, as soon as the loss of revenue can possibly be afforded, to be substantially reduced, leaving those on spirits and strong beers where they are. The duties on wines could probably be raised further with advantage to the revenue and harm to no one. In the case of both wines and spirits, there is no reason why the duties

should not be remorselessly raised to the point at which they yield the maximum revenue obtainable, and beyond which any further increase would actually lessen the yield. Beer stands in a different category, and should be taxed on a lower scale, as a luxury of the poor rather than the rich.

It is, however, unlikely that the Labour Party will in the immediate future reduce the duty on even light beer. The maintenance of high duties will be its concession to the strong body of prohibitionists in its ranks. Nor is this in fact the most urgent of the claims for tax reduction which a Labour Chancellor of the Exchequer will have to meet. But, as long as the duties on beer remain at their present level, it is necessary to bear in mind that the wage-earning class is paying in this form an enormous contribution towards the costs of the social services. Moreover, to the beer tax must be added, in this calculation, a large part of the tax on tobacco, which yielded over £18,000,000 in 1913-1914 and not far short of £54,000,000 in 1926-1927—a rise approaching two hundred per cent. Beer and tobacco thus yielded together £138,000,000; and, with spirits added, the yield was over £181,000,000. This was more than enough to pay for the entire expenditure of the State in the same year on Old Age Pensions, War Pensions, Education, Health and Social Insurance put together. As the poor paid by far the greater part of this sum, it is abundantly clear that they are bearing at present far more than their fair share of taxation. Nor, of course, is this, apart from the direct taxation on the more highly paid wage-earners, nearly the whole of what they have to bear.

"More fools they!" the ardent prohibitionist is apt to retort, dubbing all the expenditure on which this heavy taxation is levied avoidable and socially noxious. I am not going here to argue with the prohibitionist. My point is simply that, wisely or foolishly, the poor do pay this heavy taxation, and, therefore, cannot pay in other ways. Such proposals as the taxation of wage incomes at source down to a lower level are clearly incompatible with the maintenance of anything like the present incidence of indirect taxation. This is apart from the many other objections to which such a proposal is open. Moreover, if indirect taxation on beer and tobacco is maintained at the present level, clearly the balance ought to be redressed by much higher direct taxation of the bigger incomes.



The remaining 'revenue' taxes are far smaller in amount. Much the largest is the sugar tax, which yielded in 1926-1927 not far short of £19,000,000. The tax on tea yielded £6,000,000, and the entertainments tax approaching £6,000,000. All these duties, as well as the duties on cocoa, matches, betting, patent medicines, and dried fruits clearly tend to fall largely on the poor. Mr. Snowden, when he was last in office, nearly halved the yield from sugar and tea; but there is clearly no justification for the existence of these duties at all as revenue duties. Their aspect and that of some of the other duties mentioned, as preferential duties, comes under another category, and is discussed at a later stage. Clearly, before a Labour Government has been long in office, there will have to be a substantial loss of revenue from these sources.

The definitely protective duties yielded, as we have seen, £10,500,000 in the year 1926-1927. The duty on silk and artificial silk, at more than £5,600,000, was responsible for more than half the total. The 'M'Kenna' duties yielded £2,700,000, and all the 'Safeguarding' duties together under £2,000,000.

The revenue from protective duties is thus still relatively unimportant, though it has been rapidly increasing. In the year of Mr. Snowden's budget it was under £600,000, but it was multiplied more than eight times in the following year, and has since again been more than doubled. It still, however, in 1926-1927, represented under two per cent of the total revenue from taxation. The existing duties are thus still relatively unimportant in themselves: what is important is their rapid increase, which will certainly continue if a Conservative Government remains in power.

I have made it plain in an earlier chapter that, in common with the Labour Party as a whole, I am against protective duties. Prohibition, and not a tariff, is the right method of keeping out unnecessary or undesirable imports, whether the case against them is that they have been made abroad by sweated labour or that it would be better for Great Britain to produce a supply of the commodities in question at home than to procure them from overseas. A system of importation only under license, and of bulk purchase under State authority, could further be used both to limit the quantity of any commodity brought to this country, and to grant any preferences thought desirable for Empire pro-

ducts, and also to discriminate between goods made or marketed under fair and unfair conditions. This question, as far as it relates to Empire preferences, has been discussed already in a previous chapter, and there is no need to go over the ground again.

It is therefore clear that a Labour Chancellor of the Exchequer ought to set out with the idea of repealing in the long run absolutely all protective duties. But it does not follow that he should do this at once, or without providing any substitute for them where good cause can be shown. The effect of such duties on home industry is obviously to some extent—though the effect of the existing duties in this respect is commonly exaggerated—to shift the balance of industrial production. A sudden repeal of duties may thus cause not only hardship to workers thrown out of employment, but also destruction of capital resources. No very serious results of this sort would be likely to follow if the Labour Chancellor, in his first year, took off all the duties at a blow. But there would be some such results; and it is better to avoid them. It is therefore suggested that repeal should be gradual, wherever risk of loss or hardship can be shown to exist, and that the new measures for control of imports and the development of bulk purchase should be brought into operation simultaneously with, and not after, the repeal of the relevant duties. The existing duties have for the most part only a symbolical importance; and it is not worth while to spend valuable parliamentary time that might be devoted to urgent work of national reconstruction to expediting their repeal. It will not greatly matter even if the work of repeal cannot be completed before the end of the second Parliament in which Labour holds power.

This repeal is, of course, bound up in some degree with the question of Empire preference, and the reduction or repeal of the revenue duties involves the same problem. As I have suggested in an earlier chapter, the governing principle in this case should be that no duty should be imposed for the sake of granting an Empire preference, but that, when a revenue duty has been imposed for other reasons, the retention of a preference should be considered in certain cases. In the main, however, Empire preference should be achieved by means of bulk purchases and import control, and not by means of duties, even if they are imposed for revenue purposes. In the long run at any rate, all preferences by means of duties should disappear.

This view is, of course, sharply distinct from that of the Liberal free trader. It is not suggested that trade should be free, but that tariffs are the wrong method of controlling it. As we have seen already, strong control is no less necessary in foreign trade than in domestic industry and commerce.

The net result of the changes in indirect taxation will thus be in the long run substantially to reduce their yield; and this loss will have to be offset by a sharp rise in the total yield of direct taxation. Within a few years this can be secured to a great extent through the increased prosperity resulting from the proposed measures of national development, which will cause a given rate of tax to yield a considerably larger revenue. The pinch would come, if taxes yielding a large volume were repealed or reduced at once in the earlier years; and the revenue position in these years will be at the best very difficult. Where indirect taxation is reduced, the loss will have to be met mainly by increasing the return from income-tax and surtax, and to a less extent by the development of new luxury duties and the raising of those now in force. It will further be necessary to apply the free money now used for debt repayment to the development of productive social services designed to revive industry by the stimulation of purchasing power—especially in the form of family allowances; and to postpone in some part, until the measures of national revival have had time to take effect, the specific allocation of the increased death duties to the work of capital development. The need for these immediate measures will appear plainly when, in the next chapter, we have examined the main items on the expenditure side of the Labour Government's reorganisation of the national accounts.

## CHAPTER XVIII

### THE LABOUR BUDGET—EXPENDITURE

An analysis of the national expenditure as it is—Revenue-producing expenditure—Debt charges—The fighting services—The costs of government—The social services—War Pensions—Proposed reductions in military and naval expenditure—Only the Debt and the fighting services offer real prospects of economy—New expenditure required—The cost of unemployment—The distinction between capital charges and charges on current revenue—The methods of new borrowing—Its effect on conversion operations—Cost of the National Labour Corps—How far will it be an additional cost?—The Unemployment Insurance Acts—Rates of pay for members of the Labour Corps—Saving in Poor Law expenditure—Family Allowances—Cost of various schemes—Case against differential rates—Cost of educational reforms—The school-leaving age—Effects on unemployment of a high school-leaving age—Cost of Local Government reforms—Taxation of Land Values—The Labour Budget as a whole—Total potential increases in expenditure—Reductions in existing charges—Loss of revenue—Yield of new taxes—Are the proposed rates of taxation too high?—The sum raised will be largely redistributed as income—The relation of the proposed taxation to the national income—Its effects on the supply of capital—Will there be enough 'saving'?—Difficulties of the transition—The vital problem is the restoration of industry.

We have seen in the previous chapter that Mr. Churchill budgeted for a prospective total expenditure of £820,000,000 in the year 1928-1929.<sup>1</sup> This figure, however, included the total expenditure on the Post Office, which is in fact a highly profitable concern, estimated to yield during the year a net profit of well over £8,000,000. Deducting the Post Office expenditure of over £57,000,000, we reach a total of £763,000,000. This includes

<sup>1</sup> As I go to press before Mr. Churchill's 1929 Budget or the end of the financial year, I have not attempted to revise these figures in the light of later events, or to make any allowance in them, beyond that made by Mr. Churchill in 1928, for the effects of de-rating. The reader can bring the figures up to date for himself by comparing them with the Budget statement of 1929, which will be available before this book appears.

Mr. Churchill's estimated surplus of no less than £14,500,000. But this was not a real surplus, as it included provision not only for ordinary contingencies, but also for the cost during the year of the Government's scheme of rating relief. It must, therefore, be left to stand in the estimate of expenditure for the year.

The total also included over £21,000,000 of revenue from motor duties assigned to the Road Fund, which thus appeared on both sides of the balance sheet. And it included the Sinking Fund of £65,000,000 for debt reduction. Deducting these items, and also his estimated surplus, Mr. Churchill, in his budget statement, brought down his net total of ordinary expenditure to rather less than £677,000,000.

In this total of £677,000,000, by far the largest item was, as we have seen, the interest on the National Debt. This stood at £304,000,000, in addition to the £65,000,000 provided for repayment. The fighting services, as we have seen, accounted for £115,000,000, and War and Civil Pensions for nearly £60,000,000—in fact nearly all attributable to War Pensions. These three groups of services together added up to £479,000,000, leaving less than £200,000,000 for all the other expenses of the State.

Of this remaining sum, £43,500,000 was to go, broadly, on the upkeep of government, including the costs of central government, law and justice, tax collection, imperial and foreign services, and a number of smaller miscellaneous items. Over £5,500,000 was to be paid over to the exchequer of Northern Ireland, and nearly £10,000,000 was to be spent in various grants to trade and industry and in expenses connected therewith. These groups account for a further £59,000,000, leaving only £139,000,000 unaccounted for.

This £139,000,000 had to cover the entire contribution of the State to the maintenance of what are known as the 'social services', and all contributions, except those under the Road Fund, made by the State to the costs of Local Government. It included £14,000,000 payable to the Local Taxation Accounts, leaving £49,500,000 for education and £75,500,000 for health services, unemployment and sickness insurance, Old Age and Widows' Pensions, and other social services.

Thus, very roughly, on the basis of the 1928-1929 budget estimate, our net national expenditure was distributed as follows:

	£ millions.	Per cent.
National Debt Interest and Management . . . . .	304	45
War and Civil Pensions . . . . .	60	9
Fighting Services . . . . .	115	17
Expenses of Government . . . . .	59	9
Social and Local Government Services . . . . .	139	20
	<u>677</u>	<u>100</u>
Add. Sinking Fund . . . . .	65	..
Estimated Surplus available for contingencies and rating relief . . . . .	14	..
	<u>£756</u>	

[These figures omit the expenditure on the Post Office (£57,000,000—more than offset by revenue, and the Motor Duties allocated to the Road Fund (£21,000,000). Adding these, we reach a total of £834,000,000, or, after deducting the estimated surplus of £14,000,000, the total of £820,000,000, with which we started. The figures have been quoted throughout only to the nearest million.]

A Labour Chancellor of the Exchequer, as we have seen, will have to budget for a considerable and progressive increase in expenditure on social services and on forms of State action designed to further industrial recovery. In the present chapter, we have first to see what economies in present expenditure a Labour Chancellor can reasonably hope to effect, then to attempt, very broadly, to foreshadow the extent of the new expenditure he will be likely to incur, and finally to draw up a very rough estimate of the probable relationship between revenue and expenditure under a Labour Government.

The most important possible reduction in expenditure—that on the service of the National Debt, has been discussed already, and we need only return to it when we attempt to strike our final balance. War Pensions are a gradually falling expense, as temporary pensions lapse and claimants die. They amounted to £69,000,000 in 1924-1925, and may be expected to continue their fall, even if in certain cases a Labour Government is prepared for a more generous reconsideration of claims. There will therefore be here a small but increasing margin which can be applied to other uses. Nevertheless, for safety, I shall leave the pensions figure standing at the £60,000,000 which is Mr. Churchill's estimate for 1928-1929.

The fighting services are obviously the chief field of national

expenditure in which retrenchment is both possible and necessary. Army expenditure stood at over £28,000,000 in 1913-1914, and stands at £41,000,000 in the 1928-1929 budget. It has thus risen by about forty-five per cent. This may seem, to military pundits, moderate in face of the general rise in prices. But it has to be remembered, first, that our military expenditure before the War was based on the lively expectation of a European conflict, and had been rising steadily since 1908, and secondly, that it might reasonably be supposed that, having fought the War, we should proceed sharply to reduce our military 'preparedness', instead of beginning to prepare for a new conflict. It is true that a part of our expenditure on the army is directly due to our imperial commitments, and that these cannot be suddenly reduced to any great extent. But, apart from this point, there is obviously room for substantial economies. Since the year 1922-1923, when expenditure on the army amounted to £45,400,000, there has been a reduction of less than four and a half millions, despite the considerable fall in prices. It is surely reasonable to suggest that a Labour Government could rapidly reduce the expenditure by at least £11,000,000 to £30,000,000, without endangering any essential service of imperial police. Indeed, a further reduction to £20,000,000 ought to be aimed at, even if this could hardly take effect during the Government's first term of office.<sup>1</sup>

In comparing pre-war with post-war military expenditure, it has further to be remembered that before the War there was no independent Air Force, whereas in 1928-1929 we are spending over £16,000,000 on this service alone. Thus, we are in effect spending on military establishments, apart from the Navy, over £57,000,000 to-day, as against £28,000,000 before the War, a rise, not of forty-five, but of over a hundred per cent. The development of the Air Force ought clearly to make possible a considerable curtailment in other military expenditure, even if its

<sup>1</sup> It has, of course, to be borne in mind that Army pay and other costs for each effective fighting unit have risen substantially since pre-war days. If the Army Estimates of 1914 are compared with those of 1928, it will be found that the number of Regulars, apart from those in India, has fallen by about 30,000—from 168,500 to 139,000. The Army Reserve has also fallen, from 147,000 to 109,000, and the number of Territorials has been reduced from 315,000 to 183,000. The fall in the number of Regulars is, however, very small in view of the totally changed military situation; and the total army establishment in 1928, excluding cadets, still exceeds half a million men.

inflated personnel were reduced drastically below the present numbers. Actually, expenditure on the Air Force has risen from less than £9,500,000 in 1922-1923 to over £16,000,000 now, and on the Army and Air Force together from £55,000,000 to £57,000,000. So far from reducing our military expenditure in recent years in correspondence with the fall in prices, we have positively increased it by £2,000,000. It should be possible for a Labour Chancellor of the Exchequer to cut back Air expenditure to a maximum of £10,000,000 a year, thus saving at least another £6,000,000 over and above the military savings suggested already.

The Navy is estimated, in the year 1928-1929, to cost over £57,000,000, and is thus easily the most expensive of the three fighting services. We were spending on it, despite the Washington Conference and other efforts towards the limitation of naval armaments, actually over £1,000,000 more than was spent in 1922-1923, and substantially more in view of the change in the price level, which has greatly cheapened both shipbuilding and repairs. This £57,000,000 compares with £49,000,000 in 1913-1914—a rise of only seventeen per cent. But this figure is highly misleading; for the War was preceded by a race in naval armaments which had forced up our expenditure on the Navy from under £20,000,000 in 1896-1897 to nearly £37,000,000 in 1904-1905, and then after a drop to £31,000,000 under the Liberals in 1907-1908, rapidly to the £49,000,000 of the last year before the War. These were the years of argument about two- or three-Power standards, and of frantic building against Germany and all the world, including even our own Allies. As recently as 1893-1894 the Navy cost us only £15,500,000. To double the figure ought to be ample for our present needs, when we have to build primarily for police purposes, and small cruisers are in fact of far more use to us than gigantic battle-ships and battle-cruisers. It ought thus to be possible, within a reasonable time, to save at least £28,000,000 on naval expenditure, even without any special arrangements with other Powers; and at least half the saving ought to be speedily realisable in the early years of a Labour Government's tenure of office, by the cancellation and suspension of building programmes and the reduction of sea-going personnel. I am, indeed, disposed to believe that, with courage, even more drastic reductions could be speedily and safely secured.



On the three fighting services together, the Budget estimates for 1928-1929 provide for a total expenditure of nearly £115,000,000. The upshot of the proposals made above would be to reduce this to £61,000,000 by stages, and, early in Labour's tenure of office, to £83,000,000, made up, roughly, of £30,000,000 for the Army, £10,000,000 for the Air Force, and £43,000,000 for the Navy—this last especially being a maximum figure. The long-run saving would thus amount to £54,000,000, and the short-run saving to £32,000,000 at the least; and this saving could of course be substantially increased if proper agreements for disarmament were made with other Powers. The savings here suggested are throughout irrespective of any such arrangements.

No other branch of the national expenditure offers important prospects of economy. There will be, in the services grouped together under the heading 'expenses of Government', savings on some items, but these are likely to be offset by larger spendings on others. Only the fighting forces and the service of the National Debt offer to a Labour Chancellor prospect of any substantial reduction in the annual sums which he will be called upon to provide out of revenue. Unless, therefore, the sums spent on these services can be drastically cut down, all the money required for fresh social services will have to be provided out of new taxation. This will both seriously limit a Labour Chancellor's opportunities and involve taxation too high to be introduced rapidly without a good deal of friction. Economies in existing expenditure will be of special importance in the early years of Labour's tenure of office, before the constructive measures designed to increase the wealth and taxable capacity of the nation have had time to produce their effects.

We must, then, economise drastically on the fighting services. But we shall never succeed in doing this until we regard them from a point of view essentially different from that of existing Governments. As long as we continue to arm against other great States which we regard as potential enemies, we cannot succeed in reducing armaments; for each State under these conditions is constantly stimulating the others to fresh expenditure. We must definitely stop preparing for a 'next war', and disregard absolutely what other States spend on their fighting services. Our business is to regard our Army, Navy, and Air Force as a service of imperial police which cannot be totally dispensed with at

present, but can be cut down to the minimum required for police needs. This cannot be done all at once; but, as soon as we stop preparing for a potential future World War, we can initiate a rapid process of disarmament. In all probability, if we lead the way, other States will follow our example. But even if they do not, this should not deter us. The fact that they lag behind us in recognising the futility of the policy of arming to the teeth does not mean that we are likely to fight them, or they us. And, if certain of them choose to fight each other, our business, after we have done all we can to stop the conflict, is to keep out of it.

Of course, this attitude implies a radical change in diplomatic policy. It cannot be reconciled with the maintenance of open or secret alliances designed to ensure a 'balance of power', or with the armed hegemony of the great States which are now steadily sabotaging the League of Nations. It involves a definite alignment of Great Britain on the side of the smaller States which are endeavouring to make the League a reality, and only need the help of one of the Great States in order to make the pressure of world opinion against war a force seriously to be reckoned with by any State which still retains an attitude of bellicosity. Given the right diplomacy, drastic reduction of our armaments is possible at once: as long as our present methods of diplomacy continue, it can never be possible at all.

From the fighting services and the prospects of economy in our existing national expenditure, I turn to the new expenditure for which a Labour Chancellor of the Exchequer will have to provide. It is, of course, no more possible to forecast the expenditure of any one year of a Labour Government's tenure than it was to forecast the revenue. I am necessarily dealing with a many-sided policy of social development that will be brought gradually into effect, so that the costs will not have to be met all at once on Labour's assumption of office. But it seems best to deal with the whole cost of the programme outlined in the earlier chapters of this book, and then to try, in endeavouring to strike a balance between revenue and expenditure, to indicate, if not the order in which the proposed measures ought to be introduced, at all events the practicable pace of change, as far as it is governed by financial considerations.

The constructive chapters of this book opened with a discussion of the unemployment problem. It was pointed out that

the existing methods of providing for the unemployed are not merely inadequate, but based on totally wrong principles; and it was suggested that the right way was to begin with the assumption that work must be found for every unemployed person, and then, with only unimportant exceptions, to carry that policy into effect. It was urged that this would be, from the social standpoint, far more economical than the existing methods; for, even if it does not 'pay', in a commercial sense, to employ the unemployed, this is because the private employer, in deciding whether to employ or not, takes account only of the gain or loss involved to himself, and ignores, as under present conditions he must ignore, the cost of maintaining the unemployed, which falls not on him as employer, but on the community as a whole in other ways. A social reckoning of profit and loss which includes these costs will at once make it clear that it is better and more economical to employ than to maintain in idleness every man who is capable of doing useful work.

The policy based on these assumptions was worked out mainly in the third and fourth chapters of this book. It falls broadly into two parts. The first is the establishment of a National Labour Corps in which, subject to certain specified exceptions, all workers for whom normal employment cannot be found are to be given the opportunity of enrolment, and the use of this Corps to undertake a wide range of work of national importance which is now left undone because it offers an inadequate prospect of purely commercial profit. The second part of the policy put forward consists of a systematic process of industrial reequipment and development under State control, and with the aid of State capital and State credit.

Obviously, these two parts of a Labour unemployment policy are closely connected; for the aim of the second is to make the first unnecessary by enabling all who want work to be re-absorbed in the normal processes of production. The National Labour Corps is proposed as an emergency measure, in face of an abnormal and disastrous situation, whereas the policy of national economic development is a definite stage in the transition from private capitalism to a Socialist industrial system.

We are now, however, regarding both sets of proposals solely from the standpoint of their demands on a Labour Chancellor of the Exchequer. And, from this standpoint, a broad distinction

between them at once emerges. The measures for the re-equipment and development of industry, described in the fourth chapter of this book, are definitely put forward as paying propositions. They are designed to make industry more prosperous, and to increase for the general benefit the value created by it. The sums sunk in such development are, therefore, clearly in the nature of capital expenditure, and are properly to be financed out of capital and not out of revenue. In the early stages, with which alone this book deals, they will clearly be financed out of loans—not by an addition to the present National Debt, but by the issue of new types of stocks and bonds through the National Investment Board, secured against the industrial properties in respect of which the advances are made. This process of issuing a new type of national stock, resembling the issues now made by private Investment Trusts and similar bodies, has been sufficiently described in an earlier chapter, and there is no need to repeat here what was said there. My present point is that this part of a Labour Government's programme will not have to be financed out of taxation, but will be a self-supporting venture, involving at the most a contingency fund for guarantees similar to those given under the Trade Facilities and Export Credits schemes.

It is perhaps necessary to point out that this form of State financing of industry through the National Investment Board will not in any way hamper the State in operations for the conversion of National Debt. It represents, not fresh inflationary borrowing by the State, but a diversion of funds now used for investment into channels more serviceable in the national interest. This is to be secured by the State control of new capital issues, in the manner described in an earlier chapter.

Accordingly, this part of Labour's unemployment policy does not affect the national balance of revenue and expenditure, save to the small extent to which calls may be made on the contingency fund. The National Labour Corps, on the other hand, involves substantial expenditure out of revenue; for, while the work done by it will in many cases have a direct reproductive value, it is not proposed that its activities should be confined to what is profitable in a commercial sense. Much that it does will be profitable only indirectly, or in ways that cannot be measured by means of a money return. The provision of fresh parks and

open spaces, the improvement of housing and town-planning standards, the clearance of unsightly dumps—in short, the cleansing and refurbishing of this pleasant land of Britain—have, socially, an immense value, and much of this value will be expressed later in increased economic prosperity. Some of it will produce a direct monetary return as well; but there will be much gain that cannot directly assume a monetary form.

The sound principle, in dealing with the work of the National Labour Corps, will be to finance out of loans only that part of its operations which can be relied upon to produce an equivalent and direct monetary return, and to meet all other costs, both for materials and administration and for maintenance, out of revenue. This will, in effect, mean a substantial concealed saving of national capital, of which account should be taken by critics of other parts of the programme here advanced; but it will be best to follow this principle rigidly. The directors of the National Labour Corps will accordingly be able to call on the National Investment Board for advances of capital that can be directly covered by the commercial and recoverable value of the work which it undertakes, and other agencies authorised by the State will be able to call upon the Corps for work on similar terms. But all work that is not directly reproductive in the sense defined above will have to be financed entirely out of annual revenue.

This, of course, does not mean that it will be all additional expenditure; for clearly, if this method of providing for the unemployed is adopted, the funds now used by the State for their maintenance in other ways will be available for the purpose. The large part of the burden which now falls, through the Poor-Law, on the Local Authorities, will indeed be removed from their shoulders, and transferred to the State; and this will mean fresh expenditure from the standpoint of the Chancellor of the Exchequer, though not from that of the general body of taxpayers, who will only have to foot this part of the bill in a different way. The main respect in which the State will be transferring old expenditure, and not increasing new, will be the Unemployment Insurance Fund. At present, the State contribution to the cost of unemployment insurance is about £13,500,000, while the employers' and workmen's contributions together amount to over £36,000,000. The fund is at present in debt to the Treasury for loans advanced to it to the extent of

about £30,000,000, and this sum will have to be wiped off. This, however, is a non-recurrent expense, for which the Labour Government can make provision in its first year of office, before its major schemes have had time to mature.

It is suggested that the Unemployment Insurance Acts should continue in force, and that contributions should continue for the present to be levied on both employers and employed at the existing rates. Workers insured under the scheme would continue to draw benefits under the conditions laid down, as long as they were not enrolled in the National Labour Corps. As soon as they were so enrolled, any benefits due to them under the scheme would be paid over to the Corps as a contribution towards the pay they would receive from it. The present financial basis of the unemployment insurance scheme would thus remain undisturbed. But admittedly certain amendments are needed in the scheme as it stands. Agriculture at least ought to be included in it, and it will certainly be necessary to extend the period during which the present transitional arrangements as to qualification for benefits remain in force. The latter of these charges can be left to be borne out of the Unemployment Fund without any additional claim on the State, even if they involve an increased deficit for the time. For the policy proposed will within a short space of years in all probability so reduce the expenditure out of the Fund as to make repayment easy. The former will involve only an addition to the State contribution corresponding to the increase in the numbers insured. An additional sum of £1,000,000 a year will certainly be ample to cover the rise in cost.

It will be noted that, for the present, no calculation is made of the cost of raising the rates of benefit under the Unemployment Insurance Scheme to a more reasonable level. This is because every unemployed worker will have, at any rate after a very short period of unemployment, the option of transferring to the National Labour Corps, in which he will at once be placed on a basis of maintenance at a better standard. Not all workers will so transfer, for a variety of reasons; but it has seemed best, in the following paragraphs, to make the calculation on the assumption that everyone will do so, and thus to envisage the largest conceivable expenditure for maintenance under the scheme. If workers, instead of enrolling in the Corps, remain in receipt of

Insurance benefit, the cost, even if the rates are raised, will still be less than the cost of employing them in the Corps. Actually, the cost of the policy as a whole is certain to work out at considerably less than the estimate.

According to the latest figures, for January 28, 1929, the total number of unemployed workers registered at the Employment Exchanges was 1,394,100. Of these, over a million were men, less than a quarter of a million women, and the rest girls and youths. Again, of the total, 1,049,700 were registered as wholly unemployed, and 268,200 as temporarily stopped—the latter figure including a substantial allowance for workers not actually unemployed at all, but under-employed on some sort of systematic short time.

Besides these unemployed workers there are others—an uncertain number—who are not registered, either because, having exhausted all claim, or likely claim, to benefit, they have dropped their registration, or because they belong to occupations, such as agriculture or domestic service, which make little use of the Exchanges. Let us assume that these bring the total number to be dealt with up to a million and a half, of whom a million and a quarter are adults out of a job.

If the State set out to maintain all these workers at a flat rate of £2 per week, the total annual cost would be £130,000,000. And, if the remaining quarter of a million—juveniles and partially employed—cost an average of £1 a week, the total expenditure would be increased by £13,000,000. Towards this amount, approximately £45,000,000 would be available from the Unemployment Insurance Fund, leaving something under £100,000,000 to be supplied from other sources. Of this, of course, a further substantial proportion would be saved in expenditure on poor relief and relief works of various sorts; but this would mainly go to lighten rates rather than taxes.

£2 a week is, of course, not a living wage for the head of a family. If children also had to be provided for under the scheme, it would be necessary substantially to raise the sum allowed for maintenance. But it has been suggested in an earlier chapter that the Labour Government will need, at an early stage, to introduce a system of family endowment. The cost of providing for children will therefore be discussed, in its place, in connection with this scheme. Here we are dealing only with

the payment to be made directly to the members of the National Labour Corps; and £2 a week is put forward as a basis, not because it is regarded as an adequate wage, but because it is both a great improvement on the present position of the unemployed, and the most that it will be easy for a Labour Chancellor of the Exchequer to provide in the initial stages of the scheme. More adequate provision will become possible as the burden of unemployment is relieved by the revival of national prosperity. Meanwhile, £2, plus children's allowances, is taken as a basis for calculating the cost of the scheme to the Exchequer.<sup>1</sup>

There will, of course, be substantial costs involved in the provision of employment over and above the pay of the members of the National Labour Corps. Equipment, materials, and organisation will all cost money, and the capital charges involved in setting the unemployed to work will mount up to a large sum. But equally, the work done by the Corps will not be unproductive. It is, at the least, very moderate to conclude that it will suffice amply to meet all charges over and above the pay of the workers employed. It is, indeed, certain to do far more than this. Under the present economic system, a worker normally remains out of work if the gross value of his work to his employer is less than the cost of employing him. Thus, if his wages are £3 and the commercial value of his product £2 : 15s., he is not employed. But the loss to be met if he were employed would be not £3, but only 5s. The gap may, of course, be a good deal wider than this, and some of the work to be done by the National Labour Corps will be of no direct commercial value in the narrow sense. But that the work of the Corps as a whole will be worth enough, even in this narrow sense, to reduce its net cost a great deal below £2 per week per worker employed is a safe assumption.

Let us, nevertheless, put the total additional cost, apart from

<sup>1</sup> This £2 a week is suggested as the standard pay for a member of the National Labour Corps living and maintaining himself (and his wife, if he has one) at home. If he were away from home working for the Corps, and lodged and fed at its expense, he would receive a smaller sum to meet his personal needs, and his wife would receive an allowance as well as his children. But it has seemed better, for the purpose of this chapter, to assume a flat rate of £2 than to attempt an elaborate calculation that could yield only the most conjectural results. It is clear, at any rate, that this basis of calculation leaves an ample margin.



recoverable capital cost, of the Labour Government's measures for dealing with unemployment at £100,000,000 a year, or one-third of the sum now paid annually in interest on the National Debt. This is on the assumption that every unemployed worker comes under the scheme, and that the net value of all their work is nothing whatever, in that it barely suffices to pay the cost of materials, equipment, and organisation. Of this £100,000,000 a substantial amount would actually be saved to the members of the community in diminished Poor Law relief. Total expenditure out of rates on Poor Law relief in England, Wales, and Scotland stood at under £13,000,000 in 1913, and rose to nearly £35,000,000 in 1925, and not far short of £39,000,000 in 1926, even apart from debts contracted by Boards of Guardians in these years. It is a fair assumption that, if the cost of maintaining the unemployed were taken off the Poor Law, the present cost would not exceed the pre-war cost increased in proportion to the change in prices—say, at the outside, £22,000,000, which is almost certainly too high a figure. This would save the rate-payers at least £10,000,000. And these figures ignore the saving in poor relief due to the institution of Widows' Pensions and to the proposed introduction of Family Allowances.

From the standpoint of the National Exchequer, however, these deductions do not affect the sum that has to be raised. We will leave it at an outside figure of £100,000,000—a maximum which could in fact never be reached or even approached.

The second really large item of new expenditure in the Labour programme outlined in this book is for Family Allowances. Reasons have been given already for holding that, although it would be far easier for a Chancellor of the Exchequer to find the money for a contributory scheme, the entire cost of Family Allowances ought to be met out of taxation. Briefly, these reasons were, first, that the workers cannot afford to pay yet more contributions out of their wages, and secondly that the contributions levied on employers are a hampering tax on production which ought not, under present conditions, to be increased. This being so, we have to reckon on the basis of a scheme financed wholly by the State. The cost involved evidently depends on the scales of allowances provided. On this point, I have made no independent calculations, but have followed the estimates published by Mr. J. L. Cohen in his booklet on *Family Income Insurance*,

which hold good none the less because Mr. Cohen himself favours a contributory scheme.

On the basis of these estimates, it is clear that any acceptable scheme of Family Endowment is bound to cost at least £100,000,000 a year. Mr. Cohen, indeed, puts forward a variety of schemes, varying in cost from £76,000,000 to £170,000,000. But his cheapest scheme, providing only for a payment of 3s. a week for all children under fifteen, is clearly inadequate, even as a beginning. A payment of 5s. a week for all children under fifteen, he calculates, would cost £125,000,000; and this seems to be the maximum which, even after some years, a Labour Government could afford, under favourable circumstances, to spend on its scheme. It would have to begin, I think, with something less than this. If about £100,000,000 were set aside for this purpose, a benefit of four shillings could be provided up to fifteen years of age. There is, of course, the alternative of providing varied benefits. Thus, Mr. Cohen calculates that for £104,000,000 it would be possible to pay 5s. for the first, and 3s. for each subsequent child under sixteen, and that if the age were limited to fifteen the cost would fall to £98,000,000.<sup>1</sup>

In principle, there is little to be said for this differential rate of payment, unless the general level of benefit is made substantially higher; for the burden of keeping each successive child is likely on the whole to increase rather than diminish. There is, perhaps, more to be said in favour of a scheme graded the other way, and providing a higher benefit for children after the first. This is done in certain of the continental schemes, with the definite object of increasing the birth-rate, though it is doubtful if it has any such effect. On the whole, the balance of argument seems to be strongly in favour of a flat rate—above all because the payment is suggested not as an addition to wages, but as a distinct allowance on behalf of the child itself, to which clearly all children have the same right. If a Labour Chancellor of the Exchequer can spare £125,000,000 for the purpose, the natural course will be to provide a benefit of five shillings a week for all

<sup>1</sup> It might be possible, by paying part of the allowances in kind, to make the money go further than if they were paid wholly in cash. This might make it possible to start a workable scheme at a lower initial cost than I have suggested in the text. But I should prefer to increase the effective allowance to the best provision that can be made for the total sum mentioned.

children under fifteen years of age. If only about £100,000,000 can be spared, a beginning will have to be made with a benefit of four shillings.

Fifteen is suggested as the age at which benefit should cease, on the assumption that the school-leaving age will have been raised to fifteen. It will, however, in practice, take some years to bring the higher-leaving age into general effect; and, until this is done, benefit beyond fourteen will need to be provided only for those children who are still attending school. It will, however, be desirable, for those who remain at school, to continue payment of benefit at least until sixteen, at all events until a general system of school maintenance allowances is brought into force for all who need them.

This brings us to the third large item of new expenditure which a Labour Government will need to incur. Widely varying estimates have been given of the cost of raising the school-leaving age to fifteen. I have taken the careful calculations of Mr. R. H. Tawney, in his recent pamphlet on the subject, as a basis. The present average cost of an elementary school place, including loan charges for buildings, is approximately £12 : 14s. The number of children who now leave school yearly on reaching the age of fourteen is about 524,000. Thus, if a new place had to be provided for each child—*i.e.*, if there were no available empty places in existing schools—the total cost of providing the required accommodation would be about £6,650,000.

It is, however, proposed not merely to raise the leaving age, but also to give all children, from the age of eleven, a form of secondary education. If the present cost of education in the central schools is taken as a basis, Mr. Tawney considers that this would raise the cost per child to £18, or by £5 : 6s. in each case. This additional cost would have to be incurred, not only for the children between fourteen and fifteen, but also for all children over eleven who are not now in a secondary or central school of some sort, or in a specially organised 'higher top' of an elementary school. The number of such children may be put, roughly, at a million and three quarters, and accordingly the additional cost on this head can be put in round figures at £9,000,000. The total cost of the main section of Labour's educational proposals, including a supplementary charge for the training of teachers and an additional sum for interest and sinking fund on the cost of

special buildings needed during the transition, I put at about £20,000,000. If half this sum fell on the Exchequer, the Labour Chancellor would thus have to find £10,000,000.

This figure, it will be noted, includes nothing for maintenance allowances. I am assuming that, for children under fifteen, the institution of family allowances will make these unnecessary, and will also save the sum at present expended upon them. But there is need for a substantial increase in the maintenance allowances provided for children remaining at school after fifteen. This could be done, either by continuing the payment of family allowances, as suggested above, or by extending the system of allowances already in force under the Local Education Authorities. A part of the cost of this would, of course, fall on local resources. If we assume that half of it falls on national funds, an annual sum of £2,000,000 should be enough for the present to set aside for this purpose.

It is not of course suggested that the sums set aside above for the development of education are really adequate to the need. The standards of staffing and accommodation now in force in central and similar schools need to be raised up to those enforced in the secondary schools. But this is bound to be a gradual development; and it is suggested that a Labour Chancellor of the Exchequer who was prepared, within five years, to add about £15,000,000 a year at once to our present educational budget could not only carry through all the necessary steps outlined above, but also afford sufficient resources for the other important, but far less costly, reforms proposed in the chapter dealing with educational policy.

It has, moreover, to be pointed out that the cost of these charges is far from being a net cost to the community. Apart from the positive influence of education in improving both productive efficiency and the quality of citizenship, the removal of well over half a million children from the labour market would evidently tend to diminish unemployment. It would absorb, in the first place, nearly all the sixty thousand or so of young workers between fifteen and eighteen who are at present unemployed; and, as the places now filled by those between fourteen and fifteen were filled by older juveniles, it would create vacancies for adult labour. Mr. Tawney estimates that if, after the juveniles now unemployed had been absorbed, one adult took

the place of two juveniles removed from industry by the raising of the school age, there would be a saving of about £9,000,000 in unemployment benefit alone. If only 200,000 unemployed adults, in addition to the 60,000 juveniles, were taken into employment as a result of the change, there would be, on the basis of the £2 a week for adults and £1 a week for juveniles taken above as the standard for calculating the cost of the National Labour Corps, a reduction of over £11,000,000 in the possible maximum expenditure under that head. Thus, it appears clearer than ever that the £100,000,000 mentioned above is a gross overestimate of the probable cost even of the most ambitious scheme for the employment of the unemployed.

The fourth large item of potential new expenditure of which we have to take account concerns the services of Local Government apart from education. Here the financial position is complicated by the Baldwin Government's de-rating scheme. According to the official figures, the loss of local rates to be made good by the Exchequer under this scheme amounts to over £27,000,000, and it is proposed in addition to find between £5,000,000 and £6,000,000 of 'new money' for rate aid. Mr. Churchill, as we have seen, budgeted in 1928-1929 for a surplus of £14,500,000, which would be available to meet charges falling on the Exchequer during this year. But in a year in which the scheme was fully in force, he would have to find nearly another £20,000,000, even if the estimated surplus were almost all taken to meet this charge.

If, then, we argue on the basis of de-rating as an accomplished fact, the Labour Chancellor will have this £20,000,000 to find, unless he makes further changes in the basis of Local Government finance. He will, however, by removing from the Poor Law the entire burden of maintaining the able-bodied unemployed, have relieved the Local Authorities of an expenditure which, according to the estimate given earlier in this chapter, cannot be less than £10,000,000 a year. The raising of the school age will involve further local expenditure, which can fairly be set off against this saving. But it has been suggested that the discrimination between different types of property on which the Chamberlain de-rating proposals are based cannot be allowed to stand, and that all property, except agricultural holdings, should again be put on an equal footing in respect of rates. This

will involve the question whether industrial rates are to rise to the level of other rates, or other rates to fall to the industrial level. Clearly, the State cannot undertake, out of ordinary taxation, to make good a loss of seventy-five per cent of all rates unaffected by the Chamberlain scheme. But, equally, any attempt to re-impose the removed rates on industrial properties is likely to encounter strong resistance. What, then, is to happen?

The answer is to be found in the new form of taxation which, it has been proposed in an earlier chapter, should be made available for meeting local expenditure. The Labour Chancellor can agree to find the sum promised by his predecessor in aid of local rates, and at the same time to make the Local Authorities a present of the new tax to be imposed on land values, as a compensation for insistence on a return to uniform rating of industrial and other properties. The distribution of the proceeds of the tax between County and County Borough authorities, pending the creation of more appropriate regional units of Local Government, will need careful working out in relation to the effects of the return to a uniform basis of rating, subject to the continued exemption of agricultural holdings.

We must now attempt to draw together the various expenditures proposed in this chapter in order both to get a rough idea of their total amount and to compare this with the possible yield of the new sources of revenue proposed in the preceding chapter. In doing this, let it be clearly understood, I am not attempting to forecast the actual budget of a Labour Chancellor of the Exchequer in any one year; for the proposals put forward will not all come to maturity at once, and the sources of possible revenue are not fixed, but change continually with the economic fortunes of the community. My figures are not the figures of any one year; and they have been framed on the most unfavourable hypothesis that could well be imagined—the continued existence of an economic situation as bad as that which now exists. I shall have something more to say on these points before this chapter ends; but first let me present the rough figures without any attempt to put them in any but the most unfavourable light.

On this basis, if all the schemes outlined in this book were put simultaneously into force, and if all of them involved at the same time the maximum expenditure—obviously a most

unlikely contingency—and if, further, no economies were made at all in the expenditure on existing services and no reduction in the sums appropriated to repayment of debt, then the Chancellor of the Exchequer would have to find approximately £250,000,000 of new revenue from taxation. This would be made up of £100,000,000 for dealing with the unemployed, £100,000,000 for Family Allowances, £15,000,000 for education, £20,000,000 for relief of rates, and perhaps £15,000,000 for other services and grants, including grants for research and an insurance premium against losses on loans made for industrial development. The £20,000,000 here assigned for rating relief is, as I have explained, the additional sum needed in a full year over and above the sum available out of estimated revenue during the year 1928–1929.

Let us assume, for the moment, that the whole of this expenditure has to be met in a single year—obviously not the first year of a Labour Government's tenure of office. We have next to set against it the potential reductions on the present expenditure of the State. These concern, as we have seen, the fighting services and the provision for the National Debt. The former, it has been suggested, might be scaled down at a fairly early stage by as much as £32,000,000, and over a longer period by £54,000,000. As I have taken the maximum figures in reckoning possible increases in expenditure, I shall do the same in the case of reductions. Expenditure, properly so called, on the National Debt can be brought down only by the reduction of interest charges. We have seen that, apart from possible economies in the cost of the floating debt, the prospect of reducing the interest charge depends on successful conversions. A reduction of debt falling due for repayment at Government option to a four per cent basis would yield an economy of £22,000,000 in 1929–1930, and of over £30,000,000 within the next few years. A basis of four and a half per cent would yield £11,000,000 and £15,000,000. Let us take this last figure. Next comes the question of the Sinking Fund. If the unallocated portion of this were suspended, and other means suggested earlier were taken to amortise the debt, the Chancellor of the Exchequer would have something over £30,000,000 less to find out of current taxation. These items together thus yield a sum released for other purposes of £77,000,000 rising to nearly

£100,000,000 as expenditure on the fighting services is progressively cut down.

We must, however, allow something for losses of revenue due to remissions of existing taxation. These, I have suggested, ought for the most part to be postponed until the most difficult financial period has been passed. I therefore allow for them nothing immediately, but write them off against the difference between the two figures given above. In other words, all economies in excess of £32,000,000 on the fighting services could be treated as a fund available for tax reduction.

This leaves the Chancellor of the Exchequer, under the highly unfavourable circumstances which are still being assumed, to find the difference between £250,000,000 and £77,000,000. Whence is this £173,000,000 to come?

It must come, in as far as it is needed in fact, principally from increases in the rates, or in the yields, of direct taxation. It has been suggested that a readjustment of the incidence of income-tax and surtax, on the lines roughly of the Labour Party's surtax proposals, could be made to yield £85,000,000. This is the Labour Party's own figure for the yield of their 'surtax' on unearned incomes in excess of £500; and at least this amount should be aimed at, though not necessarily in the form of a special tax, or by the methods suggested. I have urged earlier in this book that, apart from changes in the rates of tax, substantial revenue could be secured by the bringing under review of forms of profit now classified as 'capital appreciation' rather than income; and I am here suggesting that the proposed £85,000,000 should be secured mainly from an increase in the rates of the existing surtax, from a greater differentiation between earned and unearned incomes, and from the source just mentioned, rather than from a rise in the standard rate of income-tax generally.

In addition, it will clearly be necessary to increase greatly the yield of the Death Duties. The methods of doing this have been discussed in the previous chapter, and need not be restated here. From this source the Chancellor should seek, I think, to raise an additional £50,000,000 a year, making a total of £135,000,000 from direct taxation. To this sum might be added the yield of certain special luxury taxes and increases in existing taxes, especially the tax on betting, and a new tax on domestic servants rising sharply with the number employed. There is no reason why



these miscellaneous luxury taxes, including those mentioned earlier, and with the addition of the proposed tax on Stock Exchange transactions, should not reach at least £20,000,000. The total is thus raised to £155,000,000, leaving a shortage of £18,000,000 still to be met. If the whole of the sum assumed at the start were actually needed, this remainder would have to be found by means of a small rise in the standard rate of income-tax. But it is exceedingly improbable that it would have to be raised at all; for, as I have pointed out, the figures of expenditure taken as the basis of this calculation would be most unlikely to be reached in any year. And it must be borne in mind that throughout no allowance has been made for increases in the yield of the existing taxes with the normal increase in the size of the national income. These, perhaps, can be fairly offset against normal rises in expenditure on existing services. But the fact remains that no account has been taken of the potential expansion of revenue arising from the success of the measures proposed for the restoration of industry. If, however, we can but put our unemployed men and productive resources back into production, it is obvious that the yield of existing taxation will be at once very greatly increased.

I am well aware that the figures given in the preceding pages will stagger many people. Indeed, as I hope I have made plain, I do not expect that taxation to anything like the extent here suggested will in reality be required. There are two reasons for this. In the first place, it will clearly take some years to bring the schemes involving expenditure to full maturity, and at the same time the Labour Government will have been pursuing its plans for the reorganisation of industry and the reabsorption of the unemployed. This will have the effect of reducing the potential expenditure by a large amount; for no less than £100,000,000 of the new expenditure proposed is designed for the emergency relief of unemployment. This sum, I have suggested, is never likely to be required in full; for before the machinery for employing all the unemployed has been got fully into operation, it is certain that the rest of the policy put forward in this book will have greatly reduced their numbers, and so diminished the possible expenditure upon their maintenance.

The second reason is even more important. The bulk of the new taxation proposed is to be raised, not for spending by the

Government, but for direct redistribution as purchasing power among the members of the community. The sum provided for family allowances as a whole and the bulk of the money allocated to the prevention of unemployment will become purchasing power in the hands of the recipients.<sup>1</sup> It will thus serve directly to bring about an expansion of the demand for commodities, and will greatly help the operation of the other measures proposed for the revival of industry. The effect of this will be rapidly to increase the yield of existing taxation, and so to make unnecessary the raising of some, if not all, of the fresh taxes I have set down on the highly unfavourable hypothesis adopted earlier in this chapter as the safe basis of calculation.

If all the proposed expenditure were incurred, the national expenditure would be increased from a net total of about £760,000,000 in 1928-1929 to £921,000,000. This is not so terrible as it may sound, especially as at least £250,000,000 of this total would consist of direct transfers of income to the recipients of War Pensions, Family Allowances, and the proposed substitutes for unemployment benefit, and at least another £270,000,000 of transfers in interest on the War Debt. The national income in 1928-1929 was probably something over £4,000,000,000, and of this sum taxation, including all transfers, would on this basis amount to about twenty-three per cent. But according to the estimates made by the *Economist*, we have already, in both 1921 and 1922, experienced taxation amounting to over twenty-two per cent of the national income, without anything like the same proportion of tax revenue being redistributed through direct transfers of income. In 1920 our central tax revenue was well over £1,000,000,000 and in 1921 over £857,000,000. It is true that these figures were on a basis of higher prices. But they were also realised in a time of serious under-production. Given a reasonably efficient development of our national productive resources, there is certainly no reason why we should not stand taxation of this magnitude, not only without injurious effects but if proper use is made of the money, with great positive benefit in the stimulation of industry through the better diffusion of purchasing power.

<sup>1</sup> It is not, of course, additional purchasing power, since it is transferred from others by taxation. But it is more likely, after redistribution, to be used in buying commodities that will stimulate the demand for labour.

But there is a further reason for modifying our alarms. I have pointed out that the 'budget' here presented does not relate to any one possible year. The various expenditures proposed in it could in fact hardly all occur in the same year. Take the £100,000,000 allocated to the provision of employment. Obviously, such a body as the proposed National Labour Corps could only be built up by stages, and could not be at once organised on such a scale as to take over the whole body of the unemployed. There would be time, before it could reach such a scale, for the measures designed to increase the prosperity of industry by raising demand and improving the efficiency of supply to begin producing their effects in diminishing the numbers of the unemployed. Again, the proposed educational changes would take some years to carry into full effect, and they would hardly be at work completely until the sums expended on unemployment were already falling fast with the increase in industrial production. The maximum expenditure taken as the basis of calculation would, therefore, never be simultaneously reached; or, if the State did spend up to the proposed maximum, it would have a substantial revenue available for meeting other services besides those included in the estimate.

The more intelligent critics of this view will probably suggest that the fatal objection to it lies in its effect on the supply of capital. It will dry up, I can hear them urging, the flow of fresh savings which is indispensable to the development of industry. My answer is twofold. In the first place, I agree that, during the first year or two of its application, the policy outlined in this book is likely to diminish the volume of the national 'savings' available for investment. But I do not think this need matter at all, provided that the remaining supply of capital is directed, by a conscious policy of economic control such as I have suggested in an earlier chapter, into the right channels. The national 'savings' amount now to at least £500,000,000. Even if we were to make the extreme supposition that higher taxation would temporarily reduce this to £400,000,000 for a few years, is it really contended that the effect on industry would be disastrous? If we lop off those forms of investment, and especially of foreign investment, with which we can best dispense, I am sure we can not only manage, for a year or two, on £400,000,000, but make that sum react far more beneficially

on British industry than £500,000,000 is reacting to-day. For we can use it to retrieve and restore the productive efficiency of a huge mass of existing capital which is at present being allowed to rot unproductively away.

This, however, is only the first part of my answer. Those who fear that higher taxation, designed to effect a redistribution of incomes, will dry up the stream of capital are really labouring under the delusion of an 'income fund'—a delusion as dangerous and unfounded as the 'wages fund' theory which every first-year student of economics learns to refute. The flow of capital depends mainly on the prosperity of industry, which in turn depends mainly on the presence of an active demand. If we revive national purchasing power and take the necessary steps for the re-conditioning of industry in order to supply it, we need have no fear that an abundant flow of capital will be lacking. The best way of ensuring an adequate supply of capital is to increase the size of the national income.

While, therefore, I recognise that there may be a year or two of difficult transition, I have no fears at all about the longer-run effect of the policy here outlined on the resources available for expanding production and so improving the national standard of life. It is merely ridiculous, in face of the huge gap which obviously yawns between our present production and our productive capacity, to suggest that there is any real danger of shortage when once we have set the wheels of industry again in motion. And for that there are two essential steps we must take. We must apply a co-ordinated social control to the re-equipment of industry on up-to-date scientific lines, and we must revive demand by a deliberate redistribution of the national income. The question 'Can the nation stand higher taxation?' is meaningless by itself; for the answer depends on the uses to which the money raised in taxation is applied. We can stand higher taxation with great and positive benefit, if we ensure that it is applied to the right uses.

## CHAPTER XIX

### THE NEXT LABOUR GOVERNMENT

This book deals solely with immediate measures and not with Socialism in the abstract—A Labour Government is an imminent possibility—But it cannot attempt to establish Socialism at a blow—Importance of selecting the right issues for immediate action—Why this book does not discuss personalities—The Labour Party's official programme—What is Socialism?—Need for a re-definition in the light of post-war problems—Post-war stabilisation and its effects—The stabilisation of unemployment—The differences between the Labour 'right' and 'left' wings considered—How far are they real differences?—Communism in Great Britain—A negligible factor—The task facing the next Labour Government summed up.

It has been made perfectly clear, I hope, that my object in writing this book has been to discuss, not politics in the abstract, or Socialism as a theory of society, or even the working out of any complete scheme of economic reorganisation, but simply and solely the most important steps that can be taken within the next few years in order to begin straightening out the tangle of our economic affairs. My object has thus been purely practical, and I have dealt only with things that could be set on foot in the immediate future, if Great Britain had but a Government with the will to tackle the problem seriously, and if this Government had behind it a sufficient body of active and intelligent support.

Exactly how soon such a situation is likely to arise it is impossible to say; but clearly the possibility of it is bound up with the political fortunes of the Labour Party. A Labour Government, with a clear majority at its back, might or might not make a frontal attack on the problems of poverty and unemployment; but clearly no other Government would be in the least likely to tackle them at all. It is a question of Labour or nothing.

It can, in any case, hardly be very long before the Labour

Party is again called upon to form a Government; and, on this next occasion, it has at least a reasonable hope of having behind it an independent majority in the House of Commons. I am not here making any prophecy of the result of the next General Election; but clearly the prospect of a clear Labour majority in the near future is probable enough to be very much in the minds of most people who care for political affairs, and to merit the fullest discussion of the uses to which such an opportunity might be put. I have, in the foregoing chapters, made throughout the assumption that this is the situation which has to be faced, and tried to answer the question 'What could a Labour Government, with a majority behind it and a sufficient backing in the country, reasonably seek and hope to achieve?'

I have taken for granted that it could not even attempt to establish any complete system of Socialism. A violent revolution, such as came to Russia in 1917 under the shadow of war, might make possible and indeed inevitable a sudden and complete change of social system. But such an event is, in this country and at this time, so exceedingly unlikely that we need not discuss it at all. The situation which it is necessary to envisage and consider as carefully as we can is that of a constitutional assumption of parliamentary power by a Labour Government which, having been victorious at the polls, finds itself called upon to put its policy into effect by parliamentary means.

Such a Government will not be able to select, on any theoretical ground, the issues with which it proposes to deal, or the order of dealing with them. It will have its hands full with immediate and pressing problems; and, while it will need to have always in mind the relation of its current measures to the wider task of a complete, though gradual, change from a capitalist to a Socialist economy, it will be under the necessity of showing speedy practical results, if it is to have any chance of retaining power in its hands. It will be of no use for the leaders of such a Government to appeal to their constituents to await the complete realisation of its ultimate plans before judging its effects. Both they and it will be judged by what they are able to accomplish practically during the first few years of their tenure of political power. If they fail to produce these immediate and practical results it will be some time before they are given another chance.

It is, therefore, of the very greatest importance that the leaders and supporters of such a Government should get clear in their minds what the immediate objectives of its policy ought to be, and by what methods they are to be sought. This book accordingly, is an attempt, neither final nor, I trust, dogmatic, to outline in as practical a fashion as I have been able, what a Labour Government with a clear majority ought to aim at setting on foot. It takes the broad Socialist objective for granted, and concerns itself with one particular critical phase of its working out in practice.

It follows that the foregoing chapters deal hardly at all with personalities. The merits or demerits of the various leaders of the Labour Movement have been nowhere even discussed. Nor have I needed to touch, save quite incidentally, on those internal controversies about tactics and party organisation of which every political body has its share. For one thing, the discussion of these differences would almost certainly close the minds of a good many actual or potential supporters of the policy I have tried to outline against the reception of my arguments. Either they would dismiss my book without troubling their heads about it because they chanced to dislike my views on some leading political personality or internal controversy within the Labour movement; or, if they did condescend to discuss what I have written, the debate would wander off into questions which, whether important or not in themselves, are largely irrelevant to the situation that will have ere long to be faced. In the Labour Party, as in all other parties, there are internally many cross-currents of personal misunderstanding and dislike, and many differences of attitude and temperament which find their easiest expression in controversies over strategy and organisation. I do not suggest that all these controversies are unreal or unimportant; but I do hold that a careful consideration of the fundamental questions of social and economic policy ought to take precedence of them.

At all events I have deliberately, and for sufficient reason, kept them out of this book. For the human mind is so made that, given a chance of discussing personalities, it is usually most reluctant to discuss principles or methods of applying them. Personal recriminations are so convenient a refuge from the labour of thinking; and, when things go wrong, it is so much easier to blame leaders than to think our way down to the causes of the set-

back. If we allow ourselves to begin by discussing personalities, we are likely to end in considering nothing else. And, above all, the prevalence of personal differences, which mutual misunderstandings often magnify to the bewildered discouragement of plain people, makes it the more necessary just now to settle down to a hard discussion of facts and policies, as far as possible apart from personalities and from those temperamental divergences which often underlie them.

There is the stronger case for this because, whatever our varying opinions of individual leaders and their virtues and capacities may be, we all know broadly who are likely to be the guiding personalities of the next Labour Government. The question of practical importance is, therefore, not whether we like these particular leaders or not, but what we want them to do. Just now, what the Labour Movement above all needs is not a stoking up of the fires of internal controversy, but a carefully considered and widely understood programme of immediate measures, suited alike to the opportunities that are likely to be presented to it during the next ten or eleven years, and to its capacity for carrying them through.

The Labour Party, indeed, has already its official programme; and this is in constant process of elaboration by various committees which form an essential part of its official machinery. It needs, in the main, not a rival programme, but a more careful working out, in the light of the present world situation, of proposals already put forward. An official programme, however, almost inevitably embodies rather a series of aspirations and projects than a definite plan of campaign. It has to cover a wide ground in very broad outline, and it necessarily stresses rather the ends to be achieved than the means of achieving them. Moreover, an official programme can hardly avoid being something of a museum, in which exhibits from the party's past, and projects conceived in the light of situations now extinct, fill many of the show-cases. New thought is bound to be to some extent crude, and is bound to pass through a process of testing and refining before it finds its way to the official programme of the party. But new thought we must have, if any political programme is to be kept fresh and up to date.

What is Socialism? A generation ago almost any Socialist, confronted with the question, would have been ready with an im-



mediate answer. The answers given by different Socialists would certainly have differed a great deal; but nearly all of them would have been confident and dogmatic. To-day, except among Communists, that confidence has largely disappeared; and even the Communist is dogmatic only about the way of getting to Socialism, and not about Socialism itself. It is the paradox of our time that, while the Labour Party is every day making fresh converts, and making them on the basis of an avowed Socialist faith, the nature of that faith is in danger of growing less and less clearly defined.

The last quarter of the nineteenth century gave birth in Great Britain to two great political movements—Imperialism and Socialism—each taking shape as a popular appeal for a re-statement of party-political issues. The Imperialists under Joseph Chamberlain set out to make the Empire appeal to the ordinary man; Keir Hardie and his colleagues in the Independent Labour Party sought to reinstate and reinterpret Socialist doctrine in terms suited to the outlook and comprehension of the British working class. Neither Socialism nor Imperialism was a new doctrine; but both in the later decades of the last century took on a new shape and a new appeal.

To-day one of these movements, having helped to lead us into the greatest war in the world's history, is intellectually and popularly dead. There are still Imperialists, of course; but Imperialism as a popular creed or an idea commanding respect is off the political map. What of its great rival, Socialism? It, too, has been sadly battered and buffeted. The outbreak of war, and the impotence of Socialists to prevent it, dealt a hard blow at Socialist professions of international solidarity; and the memory of the War, and all that went with it, makes men sceptical nowadays of political idealism in all its forms. But Socialism, despite intellectual and spiritual buffetings, has emerged from the War far stronger than ever before. In Great Britain, for every pre-war Socialist, there are probably a dozen to-day.

The strength of a movement, however, cannot be measured by the number of its adherents. There are far more Socialists now, because there are far more people who are seeking for a way out of the grievous troubles by which the world is beset. They are Socialists because Socialism promises a way out. But do the Socialists know the way? Can they translate their desire

for a better-ordered Britain in a better-ordered world into positive and practical terms? Do they know what they mean to do, and how, and by what steps, they mean to do it?

This need for fresh thinking is urgent. For even the most incorrigible optimist will hardly suggest nowadays that the world is in health. The position, in comparison with the years immediately after the War, may have become 'stabilised'. But we have stabilised, in Great Britain at any rate, only unemployment and trade depression. On every side our problems have been too much for us, and our attempts to solve them on pre-war lines have yielded us little beyond a sense of disillusion and discontent. And, even if we grumble at the doings, or the do-nothingness, of the post-war Governments, few of us have to-day the comfortable assurance that we ourselves are masters of the true method of making things right for the community. Socialism itself has become infected with a self-distrust that has sapped the will-power of many of its adherents. Faced with the imminent prospect of power and responsibility, it has inevitably lost the serene self-confidence of the days when capitalism was a securely going concern, and the Socialist its assured and irresponsible critic.

In spite of this self-distrust, Socialism continues to make rapid headway; for in the distressed areas—the coalfields, the iron districts, the cotton towns of Lancashire, and the rest—what has anyone to hope except from a Socialist policy? Capitalism is plainly impotent to deal with the pressing problems of these areas: Socialism at any rate holds out a hope of better things. The suffering coalfields have become pocket-boroughs for Labour candidates; and the cotton towns look like following their lead. But the advances made in these areas are the result rather of reaction from the self-satisfied helplessness of Capitalism than of a real process of conversion. The Labour Party is vastly better than its rivals; but it is necessary to recognise that it owes its rapid advance even more to the situation, and to the demonstrated futility of its opponents, than to its own positive success in working out a constructive policy.

The vast majority of those who support the Labour cause are, I believe, in fundamental agreement, not only about the sort of community they hope to see emerge out of the present capitalist anarchy, but also about the broad stages by which they

think a new social system has to be built up. Their main differences relate to two things—the pace at which it is possible to advance, and the methods of propaganda which are most likely to make for success. Now, the question of pace is one which clearly has to be argued out in a practical way. The advocates of going slowly do not suggest that slowness is a merit: on the contrary, they want to go as fast as possible, and urge slow development only because they regard more rapid action as certain to fail. And the hustlers do not want to go so fast as to upset the apple-cart, but only as fast as they think it possible to go without disaster. The vital question, then, is how fast it is practicable to move with reasonable precaution; and this question clearly cannot be answered in general terms. It can be thrashed out only by careful consideration of the actual measures proposed, of the time their execution is bound to occupy, and of the reactions which they will necessarily set up in the life of the community. The question of pace must be decided not *a priori*, but in the light of a detailed examination of the essential features of a thorough programme of economic reconstruction.

The question of pace and that of the right method of propaganda are very closely connected. In the Labour Movement the Left Wing is always shouting 'Faster', not only because it wants to travel fast, but also because it is afraid that the Right Wing wants to slow down the pace. The Right Wing is always proclaiming the 'inevitability of gradualness', because it is afraid that the Left Wing is going to rush down a steep place into the sea. And, in the matter of propaganda, the Left Wing is always proclaiming its belief in the class-war and its intention of making itself as nasty as it can to the propertied classes, not only because it really believes in the class-war and hates Capitalism, but also in the hope of gingering up the Right Wing to more decisive action; while the Right Wing cultivates sweet reasonableness, not only for its own sake, but also in hope of explaining the Left Wing away and reassuring those sections among its potential supporters which, at the instigation of the capitalist press, are unduly disposed to take the Hyde Park orators *au pied de la lettre*.

Of course, what I have been saying turns on the possibility of laying down a practical policy that will, in its main features, be acceptable not only to most members of the Labour Party but

also to many now outside its ranks who are ready to join forces with any party that will seriously tackle the problem of restoring British prosperity. This has seemed to me possible, both because it is clear enough that the contending factions within the Labour Party share in the main a common objective and a common vision of the future of society, and, still more, because not one of the issues over which they are at present quarrelling is clearly defined. Right and Left have been falling out of late, not about this or that specific or definite issue, but almost exclusively over generalities that mean very little. When we find them reduced to conducting almost their whole argument in terms of the respective virtues of Rightness and Leftness in the abstract, it seems safe to conclude that they have chosen this singularly unfruitful topic for want of something more concrete to differ about.

There is a further reason for holding that most of the current controversies about Labour policy are largely unsubstantial. There has been, within the past twenty years or less, a development of Socialist doctrine, based on fundamental changes in the political and economic situation, that has made all the controversies of a generation ago thoroughly obsolete. No Socialist any longer thinks of the progress towards Socialism mainly as a bureaucratisation of industry by its transference from private hands to public departments which will proceed to administer it along Civil Service lines. The idea that, in some form, workers' control of industry is an essential feature of Socialism, that the structure of the industrial system has, as much as the structure of Parliament, to be democratised and made really responsible to and stimulative of democratic feeling, and that we must base our economic as well as our political institutions on some principle of functional administration, is no longer the fad of a small group of Socialists needing a particular label, but a generally accepted and cardinal part of the Socialist faith. That controversy, which was really on a matter of principle, is over and done with. And many other controversies of those times, such as the acrimonious arguments about the proper spheres of industrial and political action, have simply lost their meaning in face of the changed political and economic conditions. No one to-day maintains that political action is, even relatively, unimportant.

Moreover, I venture to say that no new question of the same order of importance has arisen. The Communists doubtless re-

gard their quarrel with the Labour Party as raising far more fundamental issues than the controversies between Guild Socialists and Collectivists, or Syndicalists and political actionists, ever raised. But Communism in fact counts in Great Britain only as a protest against the Labour Party's supposed failure to put forward a clear and forthright Socialist policy. Communism as a world movement of revolution no doubt means far more than this; but British Communism is no more than a gesture of impatience, or a blind reaction of despair.

We do not know precisely when the next Labour Government will be called to power; but we have to act on the assumption that it may be soon. It is essential that, before the call comes, the main features of immediate Labour policy should have been worked out as clearly as possible, in their right order and sequence, and with no less clarity as to method than objective. It is also essential that this policy should have been widely discussed and understood by Labour supporters throughout the country. For the task ahead of the next Labour Government is one that will need not only order, method, and determination in the Government itself and among its parliamentary following, but also the intelligent co-operation of every person who is prepared to face economic realities.

My own conception of this policy, and of the order and sequence in which the vital economic problems of the day need to be tackled by a Government bent on a fundamental attack on the disease of poverty, is set out in the foregoing chapters of this book. I do not hope that anyone will be found to agree with every feature of the programme I have outlined, or put my views forward as more than a contribution to an essentially co-operative process of policy-building. I am doubtless wrong on some points, and inadequate upon others. Some things I have doubtless stressed too little, and others too much; and there are whole aspects of political policy, especially in the realm of international affairs, upon which I have said nothing at all. All I claim for my book is that it is an attempt, honest as far as I can make it so, to think matters out afresh, and to get away from the dead lumber of assumptions and traditional beliefs. May I, in bringing this study to an end, briefly restate its main conclusions?

## CHAPTER XX

### CONCLUSIONS

The arguments and conclusions of the preceding chapters briefly summarised

*(The references to chapters are to those chapters in which the main part, but not always the whole, of the argument summarised is contained.)*

CHAPTER II.—That any sound economic policy must be based on the recognition that, in face of the growth of industrialisation of other countries, it is highly improbable that Great Britain can ever regain her old position of supremacy in overseas commerce, or rely, to the extent to which she has relied in the past, on a rapidly expanding trade in exported manufactures, on a scale sufficient to justify or make possible a return to the pre-war forms of specialisation upon a relatively narrow range of manufacturing industries, organised largely for the export market;

And that, accordingly, it is necessary to promote, by conscious State action, a different distribution of our national industrial resources, based more largely on production for use at home, and to take definite steps for the expansion of purchasing power in the home market.

CHAPTER III.—That by far the most pressing economic and social problem of the day is unemployment, and that any Government ought to be judged mainly by its success or failure in dealing with this problem. That the first essential step towards dealing with it is that we should make up our minds to use the labour of those for whom the present industrial system cannot find employment, and to maintain them, as we must, not in

idleness, but so that every worker is given the opportunity of doing useful work;

And that, accordingly, all the unemployed, with certain stated exceptions, should be offered the opportunity of enrolment in a National Labour Corps, to be used for the carrying out of useful work of social and economic reconstruction. That this work should be work that needs doing, but is at present not being done, because it does not offer sufficient opportunities for private profit, and that it should include slum clearance and house-building, road-making and railway development, electrification, afforestation, and land-drainage, and the clearing away of all the forms of ugliness and squalor that industrialism has scattered broadcast over the country. That the members of this corps should receive special training, and maintenance at reasonable rates, with allowances for dependents. That this scheme should be regarded as an emergency measure, pending the absorption of the unemployed into normal employment, for which training should also be provided. And that the cost of this scheme should be met out of loans in the case of undertakings directly productive of revenue, and out of revenue in respect of all other expenditure.

CHAPTER IV.—That, side by side with its emergency scheme for the provision of work for the unemployed, the Government should take steps to promote the restoration of industry, and the improvement of productive efficiency, especially by measures designed to promote the flow of new capital into those industries and services in which it can be used to the greatest social advantage, and by the development of forms of State control and assistance designed to promote the necessary redistribution of productive resources, in accordance with the conditions outlined in Chapter II.;

And that, accordingly, the State should establish a Board of National Investment with wide powers both to guide the investment of private capital, and itself to raise loans for use in the development of productive resources and the conservation of capital values already embarked in industry. That the Board should consist of experts working under the direction of the Government in matters of broad policy, and responsible to Parliament.

CHAPTER V.—That the modern technical development of industry involves radical changes in the character of wage-earning labour, and in the powers and functions of the Trade Unions. That labour is rapidly becoming more easily transferable, and that the craft monopolies of the skilled workers are being undermined. That these changes involve a decline in the economic power of sectional Trade Unions, and must lead to the development of closer unity not merely between crafts, but among the whole body of industrial workers. That collective bargaining, in its traditional forms, cannot be easily generalised, and that questions of wages, hours, and conditions, as they come to apply more generally to workers in many different trades and industries, inevitably become political questions, and have to be dealt with largely by political means.

That, accordingly, Trade Unionism, as such, is likely to arouse, in the future, a less strong sense of loyalty, and to be judged more by the positive economic services it is able to perform. That the Trade Unions will have to become more expert bodies, especially in negotiating upon workshop matters arising out of the technical changes in productive methods. And that major industrial issues will have to be dealt with largely by political means.

That, in the economic conditions at present prevailing, the Trade Unions did right, and had no practical alternative but, to enter into the discussions with Lord Melchett and his group of employers; but that it is necessary for them to ensure that in these discussions they get a *quid pro quo* for any concessions which they make; and that it should be made clear that, while they are prepared to collaborate in making industry more efficient, they have every intention of pressing on their demand for the reorganisation of industry under strong public control. Finally, that, from the working-class standpoint, the creation of a representative National Industrial Council would be a mistake, and likely to hamper a Labour Government in applying the necessary measures for the restoration of industry.

CHAPTER VI.—That, even if the bringing of industries up to date by the provision of new plant and equipment involves some decrease in employment, failure to 'rationalise' industry is likely to lead to still more loss of employment, through the sacrifice of



further markets. That the traditional individualism of British employers stands seriously in the way of increased productive and marketing efficiency. And that, even if British employers are driven to adopt the policy of rationalisation, this cannot be effective by itself in stimulating purchasing power in the home market.

That, accordingly, the State should encourage the development of capitalist rationalisation, imposing at the same time upon the 'rationalisers' conditions which will safeguard the public and the workers against exploitation. That the present state of the law relating to trade combinations should be reconsidered. That full publicity of accounts should be insisted on in the case of all rationalised undertakings; and that capitalist rationalisation ought to be regarded as a step towards the extension of public ownership and control.

CHAPTER VII.—That, in view of the recent developments of capitalist organisation, the old ideas of socialisation need to be drastically reconsidered. That Socialists do not want to socialise all industries, but only to bring the industrial system as a whole under effective social control, using various means to this end, in accordance with the special characteristics of the various forms of enterprise. That direct parliamentary control of the management of industry would not be efficient, and that for the present the best form for the administration of socialised enterprises is likely in most cases to be an expert commission, responsible to Parliament in matters of high policy, but with wide administrative powers of its own.

That many of the largest and most successful capitalist concerns cross industrial boundaries at many points, and that it would be undesirable, in socialising such concerns, to break them up. That the best course, in many instances, seems to be that of socialising rather by concerns than by industries, and of leaving the concerns so taken over in distinct being under public control.

That no clear line need be drawn between socialisation and State control, and that the latter will be in many cases a convenient half-way house to complete socialisation. That the State should be prepared, through the proposed Board of National Investment, to supply capital on loan to 'concerns' which need

it, acquiring in return a floating charge on their properties and representation on their boards of directors. That, as the number of State-owned, State-controlled, and State-aided concerns increases, subordinate Commissions should be set up for the control of groups of allied concerns, and that these Commissions should be co-ordinated under two bodies, the Board of National Investment and the Power and Transport Commission.

That the best method of socialising most industries is accordingly not by separate Acts of Parliament, but by a general Act which will enable the Board of National Investment and the Power and Transport Commission to take over concerns progressively by administrative action. That, in particular, the State should accept stocks and shares of approved concerns in payment of the inheritance taxation suggested later, and should retain the ownership of saleable shares, under the control of the two bodies mentioned above. That, where an industry or concern is directly socialised, compensation should be paid, not by raising a loan, but by issuing to the owners State bonds entitling them to a share in the proceeds of the socialised undertaking, or even by leaving the ownership of the capital for the time being undisturbed, but depriving the shareholders of control over its use.

Finally, that the assumption by the State of a large measure of control over industry will involve important changes in the procedure of Parliament.

CHAPTER VIII.—That, in view of modern technical conditions of production, a drastic reorganisation of the Trade Union movement is necessary. That the demand for 'Workers' Control' in industry needs to be restated in the light of modern industrial technique. That the Guild Socialist case for (a) the management of industry on functional lines, and (b) an effective voice for the workers in the conditions of their work, holds good. That functional management will for the present be best ensured by entrusting the administration of industry to commissions of experts, working under the final control of policy by the State, and in close touch with advisory bodies representing the workers in their various grades. That these advisory bodies should be armed with certain statutory powers of appeal against the decisions of the management. That the most effective sphere for workers'

control will be found for the present in the workshop itself, and that the larger advisory bodies should be in close touch with the smaller bodies organised on a workshop basis.

That, accordingly, in connection with all industries, whether privately or publicly managed, Works Councils should be set up, on a Trade Union basis, and given wide statutory powers of appeal to specially constituted Industrial Courts, these powers including a voice in engagements, promotions, and dismissals. That, for all publicly owned services, national and, where necessary, regional Workers' Councils should be established, with similar statutory powers. That industrial legislation designed to improve working conditions should be pressed forward, and that the Trade Unions and Works Councils should be so organised as to care largely for the enforcement of such legislation.

Further that, in all suitable cases, arrangements for collective contract between the management and the body of workers employed in a workshop or on a job, with proper safeguards for the maintenance of standard rates and conditions, should be encouraged in all publicly controlled enterprises.

CHAPTER IX.—That it will not be within the power of any Government immediately to bring about any large rise in the rates of wages over industry as a whole, though it will be able to influence wage-rates in particular cases. That, however, the presence in office of a Labour Government would greatly strengthen the bargaining power of the Trade Unions.

That the necessity for an immediate improvement in working-class purchasing power must therefore be met by other means. That a system of Family Allowances, financed wholly out of national taxation, offers the best prospect of effecting this improvement. That Family Allowances would redistribute purchasing power in accordance with need, and provide the only practicable method of raising the standard of life for the 'bottom dog', and especially for the rural labourer. That Family Allowances would not raise birth-rates, and might lower them. That they might lower death-rates. That it will be necessary to begin with a modest scheme. That the quality of population matters more than the quantity, and that Family Allowances would undoubtedly improve the quality.

CHAPTER X.—That it is necessary to meet the objection that the high taxation necessary to finance the social measures already outlined will dry up the stream of capital. That present saving is in the main not a response to the inducement of interest, but automatic saving of surplus incomes by the rich, or collective accumulation of reserved profits by companies and other businesses. That British industry does not at present rely for its new capital mainly on the individual 'saver', but to a far greater extent upon company reserves. That it is desirable to encourage this form of collective 'saving', though it at present involves certain injustices. That high taxation, pending the success of measures for the revival of industry, might cause some temporary shortage of capital.

That, accordingly, it is necessary for the State to control the direction of new capital investment. That this should be done partly by requiring public licence for new capital issues in the London market, especially for overseas issues. That, further, the State can and should influence the flow of capital both by guaranteeing for a period of years the interest on approved issues of public importance, and by direct State borrowing for the purpose of re-lending to socially desirable enterprises needing fresh capital. That it is especially important to supply new capital to home industries needing re-equipment. That these industries find it very difficult to raise capital at present, but that the State could supply their needs without serious risk and at a moderate interest. That the danger of a shortage of capital owing to high taxation is only temporary. That, as industry passes under public control and inequalities of wealth are removed, the State will need to adopt new methods for securing the requisite accumulation of capital, and that the development of company reserves suggests what forms these new methods can take.

CHAPTER XI.—That the measures proposed for the restoration of industry will not be fully effective unless the banks work in close collaboration with the public bodies controlling or influencing the flow of capital. That both the amount and the direction of credit available should be subject to public control.

That, accordingly, it is indispensable to socialise the banking system, including both the Bank of England, which chiefly con-

trols the volume of credit, and the joint-stock banks, which chiefly control its distribution among different applicants. That the socialised Bank of England should be managed by experts, under the final policy control of the Government. That the existing joint-stock banks should be left in being, but placed completely under State control. That the volume of currency and credit should be regulated in accordance with the productive capacity of the nation, and could be so regulated without inflation or a rise in prices, if the right measures were taken to stimulate production. That, finally, to leave either the Bank of England or the joint-stock banks in private hands would be to jeopardise the success of the entire policy outlined in this book.

CHAPTER XII.—That there is plenty of room for a great expansion in the home-produced supply of food. That, however, the most hopeful field for this expansion lies, not in wheat-growing, but rather in market-gardening, dairy-farming, and the supply of butchers' meat, bacon, and similar products. That the expansion of the supply of these things is largely a question of proper marketing, and of the provision of capital and credit on reasonable terms. That the traditional three-cornered arrangement of landlord, tenant, and labourer is no longer working efficiently, as the landlord is largely ceasing to supply fixed capital. That this failure destroys the landlord's reason for existing, and that the land should accordingly be socialised. That this should be done not by buying out the landlord, but by assigning to him an income secured by the rent of the land, and subject to deduction in respect of a proposed tax on land values. That the proceeds of this tax should be assigned to the Local Authorities. That the State, having become the owner of the land, should undertake the function of supplying the farmer with necessary capital. That special arrangements should also be set up for the supply of credit to farmers. That agricultural co-operation should be encouraged, both for the supply of credit under central State control, and for bulk purchase and marketing. That the importance of grading produce should be recognised, and that the State should establish controlling commissions to help the farmer in marketing his goods. That there is a place for small as well as large holdings, and that the State, as well as the

County Councils, should help to provide them. That, while rural wages can be raised as efficiency improves, the chief immediate hope for the labourer lies in the adoption of Family Allowances.

CHAPTER XIII.—That the arrangements often suggested for the bulk purchase of foodstuffs from abroad will not directly help the farmer, because the British consumer will insist on getting his food at the lowest practicable prices. That bulk purchase, especially from the Dominions, is nevertheless desirable. That the Commissions undertaking such purchase should also be in a position to purchase and market the home supply, and that they should use their power so as to stabilise prices without raising their average level. That this stabilisation of prices, and also the making of forward contracts with the Commissions, would help the farmer by decreasing his risks.

That the method of bulk purchase is largely applicable to raw materials as well as foodstuffs.

That, in the home market, more effective methods are needed for the control of both wholesale and retail prices. That bodies investigating price conditions should be armed with continuous data about costs of production, selling margins, etc., and should not have to collect data after the event. That subsequent collection is necessarily ineffective. That investigating bodies should have the power to charge profiteers before special courts, which should be invested with the power to fix maximum prices for any commodities.

That the socialisation of trade can proceed, in the main, by the same methods as the socialisation of productive enterprises. That there should be a greatly expanding sphere for the work of the Co-operative movement, and that the State, if Co-operators so desire, should be prepared to help with the loan of capital as well as credit.

CHAPTER XIV.—That no full discussion of Imperial or foreign affairs is possible within the limits of this book. That, while the expansion of trade within the Empire may be desirable, it would not be possible, even if it were desirable, to foster it greatly at the expense of trade with other countries—much less

to make the Empire a self-sufficing economic unit. That the possibilities of rapid emigration to Empire countries have been greatly exaggerated.

That there exist within the Empire gross forms of exploitation of native labour, which must be put right. That Great Britain has any claim at all to retain her colonies and mandated territories only if they are administered strictly in the interests of the inhabitants. That, if this is done, there are good reasons for wishing that the Empire should hold together. That these reasons apply even more strongly to the self-governing Dominions. That the world needs less political frontiers, and not more. That the economic links within the Empire can be drawn closer by the proposed arrangements for bulk purchase of imperial produce; but that it is not necessary for Great Britain to adopt any system of Imperial Tariff Preference in order to do this. That the research work fostered by the Empire Marketing Board and other bodies is valuable, and should be extended; but that Empire research should be extended as early as possible into a system of research for the world as a whole. That it is difficult to distinguish a rational defence of the Empire from a defence of 'Economic Imperialism', but that the two need not go together.

That Great Britain ought to make every possible effort to strengthen the forces which are seeking to make the League of Nations an effective instrument of world co-operation. That the British Government should throw its weight on the side of the smaller Powers, and decline to enter into any cabals with the great Powers. That such cabals inevitably undermine the League's authority. That the power of the League over mandates and colonies ought to be greatly extended, and all non-self-governing territories placed under its inspection and guarantee. That everything possible should be done to increase the power of the League in promoting international co-operation on economic matters. That the International Labour Organisation should be given the fullest possible backing, and that Great Britain should at once ratify all Conventions approved by it, including especially the Washington Eight Hours Convention. That it is to the interest of Great Britain that labour legislation, especially in the less-developed countries, should be pushed forward as rapidly as possible, and that, among European

countries, there should be the fullest measure of economic co-operation.

CHAPTER XV.—That the de-rating of industrial property amounts to a subsidy to industries, irrespective of their needs, and is radically unsound. That it will be necessary for a future Government to redress the balance, by extending an equal measure of relief to other rate-payers in some form.

That the proposal to substitute block grants for percentage grants is unsound and reactionary, and that the best system of grant aid is a percentage system subject to a minimum block grant designed to help the poorer areas.

That the Poor Law should be wholly amalgamated with the general body of local services by the complete redistribution of its functions. That the 'pauper taint' should be wholly removed. That all responsibility for the able-bodied, save in exceptional cases of immediate destitution, should be taken out of the hands of the Local Authorities, and assumed directly by the State.

That the existing system of Local Government is in many respects radically unsuited to modern needs, and that drastic changes in both areas and powers are necessary.

That Parliament ought to pass a Local Authorities Enabling Act, conferring wide powers on local bodies, subject to a simple system of national approval, to undertake new services, including trading enterprises.

That the problem of Local Government areas will not be properly solved except by the establishment of Regional Authorities, operating over areas considerably larger than that of the average county, and including the county boroughs within their scope. That a complete scheme of Regionalism cannot be rapidly adopted, but that a beginning should be made by the creation of representative Regional Authorities for certain groups of services, especially in connection with town-planning, transport, and the supply of power.

That the revenue from the taxation of land values should be assigned to local government purposes, and should pass ultimately to the proposed Regional Authorities, which should gradually become the instruments of a progressive system of parliamentary devolution.



CHAPTER XVI.—That the school-leaving age ought to be raised at once, with due notice, to fifteen, and later to sixteen. That provision ought to be made for a form of secondary education for all normal children from about the age of eleven. That the accommodation in secondary schools of the existing types ought to be greatly extended, and for more free places and maintenance allowance made available. That the provision of special schools ought to be greatly expanded. That the same authorities should everywhere be responsible for both elementary and higher education. That the average size of classes should be substantially reduced.

That far better provision ought to be made for the training of teachers, and that all intending teachers ought to pass through a full University course, apart from their vocational training. That, for this and other purposes, larger grants should be made in aid of University education. That more scholarships should be provided to enable pupils from State schools to pass to a University. That far more liberal assistance should be given by the State and the Local Authorities to the bodies engaged in Adult Education, including such bodies as the Workers' Educational Association. That the Universities should receive larger State aid as centres of research as well as of education.

CHAPTER XVII.—That it will be necessary, in view of the proposals made in the preceding chapters, to provide for a considerable expansion of national revenue. That it is necessary to consider in what respects economies can be made in existing expenditure, in order to provide for new services. That the only forms of existing expenditure that can be substantially reduced are those which go for the service of the National Debt and for the armed forces.

That, as the Debt cannot be repudiated but only taxed gradually out of existence in common with other forms of property, the only prospects of a reduction in the interest charge are those arising out of conversion operations, and the State's ability to borrow money at a lower rate. That conversion does offer considerable, though problematical, prospects of a saving, and that much depends on the use made of the opportunities for achieving this. That the Sinking Fund, as at present operated, and in face of the

pressing national need for money for other purposes, is not sound economically, and should be suspended as far as this rests within the Chancellor's power. That the best way of wiping out the Debt is not by means of a Sinking Fund, but by the drastic and progressive taxation of inheritance.

That, apart from this special taxation, the State must look for its increased revenue mainly to direct taxation, and especially to an extension of the supertax or surtax, greater differentiation between earned and unearned incomes, and the effective taxation of forms of revenue now evading taxation, such as certain kinds of 'capital increment'. That there is room for an expansion of the revenue from death duties, apart from the wider proposals for the taxation of inheritance. That some additional revenue could be derived from special luxury taxes.

That, while certain indirect taxes, notably the tax on beer, press very hardly on the poorer sections of the community, most claims for remission of taxation will have to await the success of the proposed measures for the revival of industry, which, by expanding the yield of taxes, will make remissions possible. That, in the meantime, the balance must be redressed by the heavier taxation of large incomes.

That the immediate objects of the tax system should include the redistribution of incomes on a large scale, in order to put more purchasing power in the hands of the poor, and that its ultimate objects should include the complete abolition of inherited wealth above a small amount designed to cover personal possessions. That for everyone to have something to leave, and no one much, is the proper social ideal.

CHAPTER XVIII.—That by far the most expensive items in the social and economic programme outlined in this book will be the proposed measures for the employment of the workless and the provision of Family Allowances. That Family Allowances would cost £100,000,000 a year on the scale proposed, and that this scale is inadequate except as a beginning.

That the cost of the proposed unemployment scheme should be met out of taxation, except in so far as it created directly revenue-producing values, the cost of which should be met out of loans. That the estimated cost, put at the absolute maximum,

to be met from taxation could not reach £100,000,000. That this charge would be temporary, pending the reabsorption of the unemployed into normal production.

That it would be necessary to provide approximately a further £50,000,000 for other services proposed; but that the whole expenditure of £250,000,000 would not all have to be met in any one year.

That it would be possible, without damaging effects on industry, to raise by means of increased taxation the sum needed to meet the additional charges proposed, less the possible economies on present services. That this would not involve the taking of an unduly large proportion of the national income in taxes, or of an appreciably larger part than has been taken before. That it has to be remembered that for the most part the additional sum would be redistributed as purchasing power to the poorer members of the community, and would thus help to revive industrial demand. That, moreover, if the required revenue could be raised on the basis of the existing yield of the taxes, there would be no difficulty at all in raising it as soon as the proposed measures for the revival of industry began to produce their effect.

CHAPTER XIX.—That any air of dogmatism about the foregoing suggestions arises from the desire for brief and clear statement. That they are put forward, not in any spirit of dogmatism, but only as a contribution to discussion. That it is of vital importance that they, and alternative suggestions that may be brought forward, should be fully discussed, in order that we may know what a Labour Government, coming to power with a clear majority at its back, could and could not reasonably attempt to do.

## APPENDIX I

### BRITISH TRADE

THE following figures are intended to illustrate the arguments set out in Chapter II. concerning the future course of British overseas trade.

#### I. GENERAL COURSE OF BRITISH OVERSEAS TRADE, 1910-1913 AND 1924-1928, OMITTING 1926

£ Millions

	1910.	1911.	1912.	1913.	1924.	1925.	1927.	1928.	Increase per cent 1928 over 1913.
Total Imports	678.3	680.2	744.6	768.7	1277.4	1320.7	1218.3	1196.9	56
Re-Exports	103.8	102.8	111.7	109.6	139.9	154.0	123.0	120.4	11
Net Imports	574.5	577.4	632.9	659.2	1137.5	1166.7	1095.3	1076.5	65
British Exports	430.4	454.1	487.2	525.3	800.9	773.4	709.1	723.4	38
Visible Adverse Balance	144.1	123.3	145.7	133.9	336.6	393.3	386.2	353.1	164

NOTE.—During 1928 Great Britain imported £58,000,000 of bullion and specie, and exported £51,700,000. If this is included, the adverse balance becomes £359,400,000. For 1927 the corresponding figure is £389,700,000.

Observe (a) the sharp rise in net imports in relation to exports of British goods; (b) the fall in the real value of re-exports; (c) the fall in the real value of British exports; and (d) the immense rise in the visible adverse balance of trade.

#### II. BRITISH OVERSEAS TRADE IN 1928 RE-VALUED AT 1924 PRICES

	Declared Value in 1928.	1928 Re- valued at 1924 Prices.	Declared Value in 1924.	Average Prices, 1928 <sup>1</sup> (1924=100).	Average Prices, 1913 <sup>1</sup> (1924=100).
Total imports	1197	1351	1277	88.6	64.5
British exports	723	838	801	86.3	52.9
Re-exports	120	123	140	97.7	75.8

<sup>1</sup> The general index of wholesale prices on the same basis works out as follows: 1924, 100; 1928, 84.4; 1913, 60.2 (Board of Trade index).

### III. VOLUME OF BRITISH OVERSEAS TRADE IN 1913, 1924, 1927, AND 1928

1924=100.	1913. <sup>1</sup>	1924.	1927.	1928.
Total imports . . . . .	96.1	100	108.9	105.7
Re-exports . . . . .	113.1	100	90.1	88.0
Retained imports . . . . .	94.2	100	111.2	107.9
British exports . . . . .	131.4	100	102.3	104.6

<sup>1</sup> Including Irish Free State.

The percentages in this table are arrived at, like the figures in the previous table, by re-valuing the imports and exports of 1913, 1927, and 1928 at the prices prevailing in 1924. This calculation is made for each year and each quarter by the *Board of Trade Journal*. The frontispiece, reproduced from the *Board of Trade Journal* of January 24, 1929, shows the same data in graphic form, thus presenting the nearest possible approximation to an estimate of the changes in the volume, as distinct from the value, of British trade in recent years.

Despite the above figures, there remains, according to the calculations of the Board of Trade, a considerable balance on the right side when the 'invisible' items in our foreign transactions have been taken into account.

### IV. BALANCES OF INCOME AND EXPENDITURE IN THE TRANSACTIONS (OTHER THAN LENDING AND REPAYMENT OF CAPITAL) BETWEEN THE UNITED KINGDOM AND ALL OTHER COUNTRIES

£ Millions

	1925.	1926.	1927.	1928.
Excess of imports of merchandise and bullion . . . . .	384	475	390	359
Estimated excess of Government payments made overseas . . . . .	11	..	..	..
Total . . . . .	395	475	390	359
Estimated excess of Government Receipts from overseas . . . . .	..	4	1	13
Estimated net national shipping income . . . . .	124	120	140	130
Estimated net income from overseas investments . . . . .	250	285	285	285
Estimated net receipts from short interest and commissions . . . . .	60	60	63	65
Estimated net receipts from other services . . . . .	15	15	15	15
Total . . . . .	449	484	504	508
Estimated total credit (+) or debit (-) balance on above items . . . . .	+54	9	114	149

It should, of course, be recognised that the above figures are only estimates. Many people believe that the receipts from overseas investments, and the total credit balances, are under-estimated, even after the re-valuation carried through in the estimates for 1926, 1927, and 1928.

## V. IMPORTS OF PRINCIPAL ARTICLES—FOOD, DRINK, AND TOBACCO

Values—£ Millions

	1910.	1911.	1912.	1913.	1923.	1924.	1925.	1927.	1928.
Wheat and flour . . .	49.7	44.2	51.9	50.2	61.8	77.3	76.2	76.6	63.9
Other Grain (barley, oats, maize, and rice) . . .	23.1	26.7	30.6	29.8	28.6	36.2	28.0	28.7	27.1
Meat . . . . .	48.9	49.7	49.1	55.7	123.1	126.7	137.4	119.0	125.3
Butter and cheese . . .	31.3	31.7	31.8	31.1	59.5	63.2	68.9	61.7	67.1
Eggs . . . . .	7.3	8.0	8.4	9.6	13.8	15.5	16.6	15.9	17.8
Fresh and dried fruits (principal articles only) <sup>1</sup>	8.8	9.5	9.9	9.7	27.5	27.4	26.8	28.6	26.8
Sugar . . . . .	24.5	26.6	25.1	23.1	41.2	44.0	33.2	27.1	27.0
Tea . . . . .	11.4	13.0	13.1	13.8	33.5	40.4	37.5	41.6	35.8
Tobacco (unmanufactured) . . . . .	3.4	4.0	5.1	6.7	14.9	15.9	15.5	19.2	17.8
Total of food, drink, and tobacco (including other articles) . . . . .	257.7	264.0	280.6	290.2	508.9	571.1	570.1	538.5	513.9

<sup>1</sup> Apples, bananas, oranges, currants, and raisins.

Note especially the very great rise in the importance of meat. The following figures of actual quantities imported should be set beside the above figures giving values for purposes of comparison.

## VI. IMPORTS OF CERTAIN FOODSTUFFS

Quantities

	1910.	1911.	1912.	1913.	1923.	1924.	1925.	1927.	1928.
Wheat . . . mill. cwt.	105.2	98.1	109.6	105.9	100.5	117.4	96.9	110.4	103.6
Wheatmeal and flour . .	10.0	10.1	10.2	12.0	11.7	11.0	9.1	11.0	8.9
Beef . . . . .	7.0	7.4	8.0	9.2	12.7	12.5	12.4	14.5	13.3
Mutton . . . . .	5.4	5.3	5.0	5.2	5.8	5.1	5.5	5.5	5.6
Bacon and ham . . . .	4.6	5.8	5.5	5.7	9.5	9.5	9.0	9.4	9.8
Butter and cheese . . .	6.8	6.7	6.3	6.4	7.9	8.2	8.9	8.8	9.1
Apples and oranges . .	8.7	8.6	9.5	9.0	14.1	14.8	13.7	14.1	13.9
Sugar . . . . .	34.5	37.9	34.4	39.4	31.1	35.1	42.3	32.9	38.6
Tea . . . . . mill. lbs.	331.8	346.1	361.1	365.0	456.5	510.5	490.6	537.0	510.5
Tobacco (unmanufactured) . . . . .	111.3	118.8	137.7	162.4	173.0	182.4	189.0	222.3	219.5

Note the sharp rise in meat, whereas wheat imports are practically at the old level. Fruit, butter and cheese, and tea have also risen sharply.

## THE NEXT TEN YEARS

## VII. IMPORTS OF PRINCIPAL MATERIALS

Values—£ Millions

	1910.	1911.	1912.	1913.	1923.	1924.	1925.	1927.	1928.
Cotton . . . . .	71.7	71.2	80.2	70.6	91.2	119.5	123.7	66.0	79.1
Wool . . . . .	35.3	34.2	34.9	35.8	48.3	71.8	73.2	61.7	62.0
Silk, flax, hemp, and jute	12.2	13.9	17.8	19.0	11.2	14.0	18.5	16.5	14.3
Timber . . . . .	26.2	25.9	28.4	33.8	47.7	51.2	46.5	49.7	42.6
Rubber . . . . .	26.1	18.3	21.6	20.5	10.9	8.3	27.8	25.4	11.8
Imports of all raw materials . . . . .	261.2	248.2	275.7	281.8	325.0	400.0	424.8	351.7	334.8

## VIII. IMPORTS OF CERTAIN RAW MATERIALS

Quantities

	1910.	1911.	1912.	1913.	1923.	1924.	1925.	1927.	1928.
Cotton . . . . . mill. lbs.	..	2207	2805	2174	1292	1578	1894	1548	1506
Wool (sheep's) . . . . .	797	795	807	801	739	760	727	822	781
Rubber . . . . .	..	..	123	157	180	146	196	325	246

Note the fall in imports of raw cotton, and the rise in rubber.

## IX. IMPORTS OF PRINCIPAL MANUFACTURES

Values—£ Millions

	1910.	1911.	1912.	1913.	1923.	1924.	1925.	1927.	1928.
Iron and steel . . . . .	9.1	11.1	13.0	15.2	13.8	22.4	23.9	34.0	24.2
Machinery . . . . .	4.5	5.8	6.8	7.3	9.3	10.5	12.0	15.9	16.7
Chemicals . . . . .	11.3	11.4	12.5	12.9	13.4	14.6	14.4	15.5	15.4
Petroleum . . . . .	5.7	5.7	7.3	10.9	29.7	33.7	30.7	33.7	33.3
Leather . . . . .	9.6	9.9	11.7	10.6	11.9	14.4	15.1	16.8	18.1
Paper . . . . .	6.4	6.6	7.2	7.7	13.6	14.4	15.1	16.4	17.3
Motor-cars and parts . . . . .	5.1	6.0	7.1	4.8	6.7	8.1	11.3	8.2	7.6
Tyres and tubes . . . . .	..	..	..	2.8	3.7	3.0	3.9	3.1	1.0
Cotton yarn and goods . . . . .	10.9	11.3	11.5	12.2	8.7	9.3	9.8	9.9	10.7
Woollen and worsted yarn and goods . . . . .	9.6	9.6	10.1	10.5	11.8	14.9	15.1	16.1	17.3
Silk yarn and goods . . . . .	13.5	13.4	14.4	15.1	22.9	25.2	22.6	16.2	14.5
Art silk yarn and goods . . . . .	..	..	..	..	4.4	5.5	6.9	6.1	7.1
Imports of all manufactures . . . . .	156.8	165.6	185.5	193.6	257.0	299.8	319.6	322.4	318.0

Note the rise in imports of machinery, petroleum, paper, and the fall in cotton goods.

## X. IMPORTS OF CERTAIN MANUFACTURES

Quantities

	1910.	1911.	1912.	1913.	1923.	1924.	1925.	1927.	1928.
Iron and steel . . . . . mill. tons	1.4	1.8	2.0	2.2	1.3	2.4	2.7	4.4	2.9
Petroleum . . . . . mill. gals.	345	366	413	488	990	1107	1045	1386	1610
Motor-cars . . . . . thousands	4.5	6.8	7.4	6.8	17.2	14.7	33.5	19.4	15.6

Note (a) the rise in iron and steel imports; (b) the huge rise in imports of petrolcum; (c) the rise in paper; (d) the rise in motor-cars [but 1925 is a quite exceptional year, owing to the temporary removal of the McKenna duties in 1924. In 1926 the number of cars imported was only 12,718].

## XI. IMPORTS AND EXPORTS

Classification—Values—£ Millions

	1910.	1911.	1912.	1913.	1923.	1924.	1925.	1927.	1928.
<i>Retained Imports—</i>									
Food, drink, and tobacco	244.8	240.7	265.5	274.3	484.4	541.3	541.0	512.8	504.4
Materials . . .	197.9	188.2	208.4	217.8	258.2	323.8	334.5	280.8	268.3
Manufactures . . .	129.5	137.3	156.2	164.1	229.8	266.1	288.1	297.3	292.0
<i>British Exports—</i>									
Food, drink, and tobacco	26.1	29.0	32.7	32.6	44.3	57.0	55.0	52.3	54.3
Raw materials . . .	53.3	53.7	59.4	69.9	130.8	106.5	84.4	76.4	70.2
Manufactures . . .	342.9	362.2	385.0	411.4	579.9	618.9	616.6	564.0	578.6

Note (a) the rise in imports of manufactures; (b) the fall in exports of raw material, due largely to coal.

## XII. SOME PRINCIPAL BRITISH EXPORTS

Values—£ Millions

	1910.	1911.	1912.	1913.	1923.	1924.	1925.	1927.	1928.
Coal . . .	36.1	36.5	40.5	50.7	99.8	72.1	50.5	45.5	39.0
Iron and steel . . .	43.0	43.7	48.6	54.3	76.2	74.5	67.9	69.4	66.8
Machinery . . .	29.3	31.0	33.2	37.0	44.5	44.8	49.1	49.9	53.7
Cotton yarn and goods . . .	105.9	120.1	122.2	127.2	177.4	199.2	199.4	148.8	145.3
Woollen and worsted yarn and goods . . .	37.5	37.2	37.8	37.7	62.6	67.8	58.9	56.8	56.9

Note the continued preponderance of cotton exports, despite their falling off. Their value is still not much less than that of coal, iron, and steel and machinery exports added together. Cotton and wool exports together were in 1928 valued at over £200,000,000, and coal, iron and steel and machinery together at under £160,000,000.

## XIII. SOME PRINCIPAL BRITISH EXPORTS

Quantities

	1910.	1911.	1912.	1913.	1923.	1924.	1925.	1927.	1928.
Coal . . . mill. tons (excluding bunkers)	62.1	64.6	64.4	73.4	79.5	61.7	50.8	51.1	50.1
Bunker coal . . . mill. tons	19.5	19.3	18.3	21.0	18.2	17.7	16.4	16.8	16.7
Iron and steel . . . mill. tons	4.6	4.5	4.8	4.9	4.3	3.9	3.7	4.2	4.3
Ships (new) . . . thous. tons	250	388	383	483	173	161	180	175	177
Cotton piece goods m. yds.	6018	6654	6913	7075	4140 <sup>1</sup>	4444 <sup>1</sup>	4434 <sup>1</sup>	4117 <sup>1</sup>	3867 <sup>1</sup>
Woollen and worsted tissues . . . mill. yds.	191	176	173	163	211 <sup>1</sup>	221 <sup>1</sup>	180 <sup>1</sup>	171 <sup>1</sup>	171 <sup>1</sup>

<sup>1</sup> Square yards.



Note the heavy fall in exports of cotton goods, the sharp decline in coal exports after the close of the Ruhr occupation, the slump in shipbuilding, and the recent fall in woollen and worsted exports.

XIV. PRINCIPAL SOURCES OF BRITISH IMPORTS AND MARKETS FOR  
BRITISH EXPORTS, 1913 AND 1927

Values—£ Millions

	1913.		1927.	
	Retained Imports from	British Exports to	Retained Imports from	British Exports to
United States . . .	130	29	189	45
India . . . . .	36	70	53	85
Ceylon . . . . .	4	4	13	6
Australia . . . .	26	34	40	61
Canada . . . . .	29	24	52	29
South Africa . . .	6	22	11	30
Nigeria . . . . .	2	4	7	8
New Zealand . . .	16	11	39	20
Malaya . . . . .	6	7	6	15
Germany . . . . .	76	41	58	42
France . . . . .	41	29	59	24
Holland . . . . .	23	15	44	21
Belgium . . . . .	23	13	46	16
Denmark . . . . .	24	6	50	10
Sweden . . . . .	14	8	25	10
Norway . . . . .	7	6	13	7
Italy . . . . .	7	15	16	13
Spain . . . . .	13	8	18	10
Switzerland . . . .	9	4	13	8
Russia . . . . .	38	18	17	5
Japan . . . . .	4	15	7	15
China . . . . .	3	15	9	10
Dutch Indies . . .	3	7	12	9
Egypt . . . . .	16	10	21	13
Argentine . . . . .	41	23	73	27
Brazil . . . . .	5	12	4	14

XV. EMPIRE TRADE AND FOREIGN TRADE

	1913.	1924.	1925.	1927.	Per cent Increase in Value 1927 on 1913.
<i>British Exports (£ millions)</i>					
To Empire countries. .	195	337	335	327	68
To Foreign countries . .	330	464	438	382	16
Totals . . . . .	525	801	773	709	35
<i>Retained Imports (£ millions)</i>					
From Empire countries . .	135	316	342	296	119
From Foreign countries . .	524	821	825	799	52
Totals . . . . .	659	1137	1167	1095	66

## XVI. IMPORTED COMMODITIES AND THEIR SOURCES

- A. Supplied chiefly by Empire countries:  
Mutton, Tea, Wool, Rubber.
- B. Supplied chiefly by Foreign countries:  
Beef, Bacon, Sugar, Cotton, Iron and Steel, Timber, Silk, Tobacco,  
Oil.
- C. Supplied by both Empire and Foreign countries:  
Wheat, Butter, Hides.

## XVII. SHARE OF CERTAIN COUNTRIES IN WORLD EXPORTS

				1913.	1925.
				Per cent.	Per cent.
EUROPE.					
United Kingdom	.	.	.	13.9	12.4
Germany	.	.	.	13.1	7.0
France	.	.	.	7.2	7.2
Belgium	.	.	.	3.8	2.3
Italy	.	.	.	2.6	2.4
Switzerland	.	.	.	1.4	1.3
Sweden	.	.	.	1.2	1.2
Russia	.	.	.	4.2	1.0
AMERICA.					
United States	.	.	.	13.3	16.0
Canada	.	.	.	2.4	4.4
Argentina	.	.	.	2.7	2.7
Brazil	.	.	.	1.7	1.7
ASIA.					
India	.	.	.	4.2	4.8
Japan	.	.	.	1.7	3.0
China	.	.	.	1.6	2.2
AFRICA.					
South Africa	.	.	.	1.7	1.4
AUSTRALASIA.					
Australia	.	.	.	2.0	2.5

## APPENDIX II

### UNEMPLOYMENT

THE number of workers registered as unemployed in Great Britain and Northern Ireland, at the end of 1928, was 1,565,000, of whom 1,211,000 were men and 275,000 women. At the end of January 1929 there had been a seasonal fall to a total of 1,434,000, including 1,113,000 men and 236,000 women. Roughly, we may take the numbers of the registered unemployed as one and a half millions, excluding those in trades not covered by the Unemployment Insurance Acts. This number is equivalent to about 12 per cent of the total number of insured workers.

Since December 1921, the first date for which roughly comparable figures are available, the number unemployed has not, at the end of any month, fallen below one million. The following table gives the figures for the end of each quarter.

NUMBERS AND PERCENTAGES OF INSURED WORKERS UNEMPLOYED,  
GREAT BRITAIN AND NORTHERN IRELAND, 1921-1928

	Numbers.	Per cent.		Numbers.	Per cent.
1921.	ooo's.		1925.	ooo's.	
December .	2,038	17·9	March .	1,310	11·1
			June .	1,409	11·9
1922.			September .	1,426	12·0
March .	1,827	16·0	December .	1,243	10·4
June .	1,563	13·7	1926.		
September .	1,449	12·7	March .	1,171	9·8
December .	1,464	12·8	June .	1,751	14·6
			September .	1,648	13·7
1923.			December .	1,431	11·9
March .	1,336	11·7	1927.		
June .	1,298	11·3	March .	1,188	9·8
September .	1,347	11·7	June .	1,069	8·8
December .	1,229	10·6	September .	1,126	9·3
			December .	1,194	9·8
1924.			1928.		
March .	1,141	9·8	March .	1,071	9·5
June .	1,087	9·3	June .	1,239	10·7
September .	1,242	10·6	September .	1,384	11·4
December .	1,263	10·7	December .	1,312	11·2

This great mass of unemployment is, of course, highly concentrated in certain industries. The following figures show the position in certain of the principal groups on January 21, 1929.

NUMBERS OF WORKERS UNEMPLOYED IN CERTAIN INDUSTRIES  
ON 21ST JANUARY 1929

<i>Group I.</i>	Number—ooo's.	<i>Group IV.</i>	Number—ooo's.
Coal mining . . . . .	213	Road transport . . . . .	24
Other mining . . . . .	14	Shipping . . . . .	27
Metal manufacture . . . . .	57	Docks, etc. . . . .	53
Engineering . . . . .	78	Other transport . . . . .	20
Vehicle trades . . . . .	25		
Shipbuilding . . . . .	56		
Other metal . . . . .	50		
	493		124
		<i>Group V.</i>	
		Distribution . . . . .	111
		Commerce . . . . .	6
		Hotels, clubs, etc. . . . .	35
			152
<i>Group II.</i>		<i>Group VI. (Others).</i>	
Cotton . . . . .	63	Pottery . . . . .	13
Wool and worsted . . . . .	37	Glass . . . . .	6
Other textiles . . . . .	45	Chemicals, etc. . . . .	14
Dyeing, etc. . . . .	20	Leather . . . . .	7
Tailoring, etc. . . . .	47	Food, drink, and tobacco . . . . .	45
Boot and shoe . . . . .	23	Woodwork . . . . .	19
	235	Printing and paper . . . . .	19
		Gas, water, electricity . . . . .	11
		National and local Govern- ment . . . . .	39
		All others . . . . .	64
			233
<i>Group III.</i>			
Building . . . . .	163		
Contracting . . . . .	43		
Bricks, etc. . . . .	12		
	218		

The mining and metal industries thus account for about a third of the total volume of unemployment, and with the textile and clothing trades, for not far short of one-half. If the influence of these trades on transport is taken into the reckoning, considerably more than one-half of the total volume of unemployment is accounted for by the position of these two key groups of industries. The remaining great wave of unemployment is found in the building and kindred trades—a significant example of our national failure to make good use of productive power lying ready to our hands.

The *Ministry of Labour Gazette* published, in November 1928, certain figures showing the changes during the past few years in the numbers of insured workers registered as belonging to the various industries. These changes help to indicate the extent to which a change is already proceeding in the character of the British economic system, in the form of a shifting in the distribution of labour between different industries.

CHANGES IN THE INDUSTRIAL DISTRIBUTION OF INSURED WORKERS,  
1923-1928

Important industries, etc., in which a change has occurred.

	Increases.			Decreases.	
	Numbers Insured.			Numbers Insured.	
	July 1923.	July 1928.		July 1923.	July 1928.
	ooo's.	ooo's.		ooo's.	ooo's.
Distribution . . . . .	1,254	1,614	Coal mining . . . . .	1,244	1,116
Building . . . . .	716	817	Engineering . . . . .	667	582
Hotels, etc. . . . .	259	315	Cotton . . . . .	568	554
Local government . . . . .	242	255	Wool . . . . .	269	243
Printing, etc. . . . .	228	254	Commerce . . . . .	227	222
Vehicle making . . . . .	192	235	Shipbuilding . . . . .	270	202
Tailoring . . . . .	186	199	Iron and steel . . . . .	211	179
Miscellaneous metal trades . . . . .	165	183	Docks, etc. . . . .	191	171
Road transport (other) . . . . .	149	176	Gas, water, electricity . . . . .	173	163
Contracting . . . . .	128	160	Baking, etc. . . . .	160	144
Trams and omnibus . . . . .	108	141	Railways (non-permanent staff only) . . . . .	190	140
Laundries, etc. . . . .	107	130	Boots and shoes . . . . .	142	135
Shipping . . . . .	127	139	National government . . . . .	181	126
Professional services . . . . .	109	117	Dressmaking . . . . .	117	105
Dyeing, etc. . . . .	115	117	Chemicals . . . . .	104	100
Furniture . . . . .	94	115			
Food trades (miscellaneous) . . . . .	97	108			
Drink trades . . . . .	100	107			
Hosiery . . . . .	90	103			
Ironfounding . . . . .	85	88			
Electrical cables, etc. . . . .	72	86			
Brickmaking . . . . .	61	81			
Electrical engineering . . . . .	61	80			
Blouse, shirt, etc., trades . . . . .	67	77			
Cocoa and confectionery . . . . .	69	75			
Silk and artificial silk . . . . .	37	70			
Total Increases (including other trades) . . . . .	6,214	7,238	Total Decreases (including other trades) . . . . .	5,272	4,644
Total insured workers in all trades . . . . .			. . . . . 11,486 11,881		

NOTE.—The figures for 1923 and 1928 are not absolutely comparable, owing to the exclusion of workers over 65 years of age from the 1928 totals; but this does not seriously affect the comparisons. See the detailed figures in the *Ministry of Labour Gazette* of November 1928.

Among the *increases* in the above table, by far the most notable is the increase of 360,000 in distribution. There has been an increasing tendency, shown in recent census figures, for more workers to be employed in distributive, and less in directly productive, processes; and this tendency has been exaggerated during the late years of slump.

The increase of over 100,000 in the building industry reflects the campaign of the Labour Government to speed up housing progress under Mr. Wheatley's Act of 1924. This figure should be considered in relation to the present heavy unemployment in the industry, which is a direct result of the Conservative Government's policy in reducing the subsidy, and so slowing down the rate of construction and virtually breaking faith with the building industry.

The increases in vehicle building and road transport reflect the rise in the production and use of motor vehicles. The only other notable increase is in the silk and artificial silk group.

Among the *decreases*, the most important are in coal mining and the metal trades; but the fall in the number of insured workers has not, of course, sufficed to prevent very heavy unemployment in these groups.

The comparatively slight fall in the cotton industry, despite the prolonged crisis through which it has been passing, is the result partly of the policy of meeting contraction by means of systematic short time, and partly of the extreme difficulty of transferring cotton operatives to other occupations.

The fall in the chemical trades, slight as it is, is at first sight surprising, in view of increased production. It probably reflects the advance of 'rationalisation' in some parts of the trade.

Unemployment is highly concentrated, not only in certain industries, but also in certain districts. It is worst in the industrial north of England, in the Scottish industrial belt, and in South Wales, and comparatively slight over most of the south of England. This unequal geographical distribution is reflected in the following figures:

District.	Numbers Insured, July 1923. <sup>1</sup>	Numbers Insured, July 1928. <sup>2</sup>	Index Number of Insured Persons for 1928. <sup>3</sup>	Numbers Unemployed, January 1929.	Percentage Unemployed, January 21, 1929.
	ooo's.	ooo's.	1923 = 100.	ooo's.	
London . . .	2,004	2,147	110	145	7.1
South-eastern . .	756	868	118	67	7.8
South-western . .	767	816	110	82	10.1
Midlands . . .	1,682	1,750	107	186	11.2
North-eastern . .	1,964	1,969	104	327	16.7
North-western . .	2,071	2,094	104	283	13.7
Scotland . . .	1,288	1,264	101	177	14.0
Wales . . .	618	592	99	126	21.6
Northern Ireland	253	251	101	40	17.5

<sup>1</sup> All ages.

<sup>2</sup> Aged 16 to 64 only.

<sup>3</sup> 16 to 64 only at both dates.

Of the great cities, in January 1929, the following twenty had the largest numbers unemployed: Glasgow, 58,800; Liverpool, 53,900; Manchester.

30,700; Birmingham, 27,300; Sheffield, 26,900; Belfast, 24,600; Stoke-on-Trent, 21,800; Newcastle, 20,200; Leeds, 19,900; Bradford, 17,800; Bristol, 17,300; Edinburgh, 15,500; Sunderland, 14,400; Hull, 13,800; Oldham, 13,200; Salford, 12,700; Cardiff, 11,900; Nottingham, 11,600; Bolton, 11,100; South Shields, 9100.

The third column of the above table illustrates the actual extent to which industries and services have been in process of 'migration' from the older industrial districts to the South and Midlands, while the last two columns show the comparatively slight effect which the migration has had so far on the volume and severity of unemployment in the depressed areas. They therefore help to reveal some of the difficulties of the policy of 'industrial transference'.

## APPENDIX III

### WAGES

DURING the decade or so preceding the War, there had been a marked check to the rise in real wages which had proceeded, with only slight interruptions, throughout the latter part of the nineteenth century. In the early years of the twentieth century, rates of wages lagged behind prices, and the industrial movements of 1910-1914 had not enabled them fully to overtake the cost of living. The position is shown in the following table.

RATES OF WAGES AND RETAIL PRICES, 1900-1914

Year.	Official Index Number of Wage- rates.	Official Index Number of Retail Prices and Rents (Average of Year).
1900 (end of year)	100.0	100
1901       "	99.1	99-100
1902       "	97.9	99-100
1903       "	97.4	100
1904       "	96.9	100
1905       "	97.3	101
1906       "	98.7	100-101
1907       "	102.2	103
1908       "	101.6	105
1909       "	100.4	105
1910       "	100.8	106
1911       "	101.1	106-107
1912       "	103.7	110
1913       "	106.8	111
1914 (July)	107.8	110 (to July)

Rates of wages are of course never an adequate measure of earnings, as in good times workers secure more regular work and higher piece-work and overtime earnings as well as higher wage-rates. Correspondingly, in bad times, these causes depress earnings far below wage-rates. These facts must be borne in mind especially



for the war and post-war periods. During the War, earnings outstripped rates of wages, whereas during the post-war depression they have certainly been, on the whole, substantially below the nominal rates of wages, if discontinuity of employment is taken into account. It is, however, only possible to measure rates on a comparable basis for any series of years. The following table shows how rates of wages and cost of living have varied since July 1914.

PERCENTAGE CHANGES IN RATES OF WAGES AND COST OF LIVING,  
1914-1928

	Official Estimate of Percentage Change in Wage-rates for a Full Week's Work.	Official Estimate of Percentage Change in Cost of Living.
1914 (July)	100	100
1914 (December)	101-102	110
1915	110-115	135
1916 "	120-125	165
1917 "	155-160	185
1918 "	195-200	220
1919 "	215-220	225
1920 "	270-280	269
1921 "	210-215	199
1922 "	170-175	180
1923 "	165-170	177
1924 "	170-175	181
1925 "	175	177
1926 "	175	179
1927 "	170-175	168
1928 "	170-175	168

Thus, on the assumption of a full week's work, there is little difference in the purchasing power of wages, as measured by weekly wage-rates, in 1914 and 1928. It should be observed that, as hours have been reduced in most trades, hourly, as distinct from weekly, wage-rates have risen on the average. There has also been some tendency for piece-work earnings per hour worked to be greater; but this is certainly far more than offset by the greater discontinuity of employment.

It has further to be borne in mind that the rise in many rates of wages is very unevenly distributed among workers in different industries and occupations, and that this applies still more to earnings, owing to the unequal incidence of unemployment and short time.

## APPENDIX IV

### THE FLOW OF CAPITAL

#### NEW CAPITAL APPLICATIONS—1910-1913 and 1925-1928 £ Millions

	Total Applications.	Destination.		
		U.K.	British Empire.	Foreign Countries.
1910	267	60	92	115
1911	192	26	65	101
1912	211	45	73	93
1913	197	36	76	84
Totals . . .	867	167	306	393
Annual averages .	217	42	76	98
1925	232	155	61	16
1926	231	129	53	48
1927	355	207	100	48
1928	369	264	63	42
Totals . . .	1187	755	277	154
Annual averages .	297	189	69	39

NOTE.—These figures, analysing the distribution of new capital, are the best that can be got; but they must be used with very great caution. In the first place, they include Government borrowings on the capital market, and these unduly swell the totals for British and overseas issues, especially when re-borrowing operations are in progress. The following figures show, for the past four years, the amounts to be deducted on this account.

#### GOVERNMENT ISSUES, 1925-1928 £ Millions

	Home.	Empire.	Foreign.
1925	46	31	..
1926	5	32	24
1927	66	56	12
1928	84	40	16
	191	159	52

In the second place, even when Government loans are left out of account, the published figures of the distribution between home, imperial, and foreign issues are highly misleading. This is because (a) numerous companies carrying on work in this country also carry on much of their work abroad, and may use capital raised here to finance their overseas business, or actually to reinvest in subsidiary concerns operating overseas; and (b) because a large and rapidly growing mass of capital is invested at home in finance companies and investment trusts, which then usually reinvest the bulk of it overseas. It is therefore quite impossible to derive from the figures the conclusion that there has been a big shift from overseas to home use of new capital; for both of the factors mentioned above have been operating at a rapidly increasing pace in recent years. Inevitably, little evidence of this appears in the published figures; but the rapid rise in the sums invested under the heading 'Exploration, Finance, etc.' affords some indication of the growing importance of the second factor. In 1925 the capital so invested was £14,000,000; in 1926, £23,000,000; in 1927, £28,000,000; and in 1928, no less than £42,500,000. Of the magnitude of the other factor no statistical evidence can be given; but it is beyond doubt of the greatest importance.

In the figures for 1928, the next largest groups, after 'Exploration and Finance', excluding Government loans, were as follows: Electric light, power, etc., £15,000,000; British municipal loans, £14,900,000; hotels and entertainments, £14,600,000; banks and insurance, £9,400,000; proprietary articles, £8,600,000; Colonial corporations, £7,300,000; stores and trading, £6,100,000; breweries, £5,800,000; oil, £5,600,000—not a very hopeful list for the revival of British productive industry.

## INDEX

- Adult schools, 359
- Afforestation, 76
- Africa, partition of, 303
- Agricultural Bank proposed, 262-4, 267, 268
  - Commission proposed, 261, 268, 270, 430
  - co-operation, 176, 262-70, 278, 430
  - credit, 262, 430
  - Guild, 264
  - Holdings Acts, 257
  - labourers and Labour Party, 197, 269, 270
  - outlook, 194
  - policy proposed, 256
  - prices, 248-54, 265, 276, 279
  - protection, case against, 248
  - rates, 315, 316
  - rents, 250, 430
  - revival, need for, 38, 247-75, 430
  - Wages Act, 189, 197
- Agriculture, Tropical, Imperial College of, 301
  - , *see also under* Land
- Air Force, cost of, 392-3, 394
- Alcohol, *see under* Liquor
- America, labour conditions in, 97-8, 108, 117
- Army, cost of, 392-4
- Australia, 303
- Banking, 312-40, 429
  - abroad, 236, 237
  - , joint-stock, socialisation proposed, 243, 244, 246, 430
  - , municipal, 132
  - , post-war policy, of, 3-4, 38, 39, 225
  - , *see also under* Credit
- Bank of England, 77, 226-33, 240-44, 429
  - , nationalisation proposed, 241, 430
  - rate, 231
- Beer, taxes on, 384, 385, 435
- Benthamism, 19-20
- Betting, taxes on, 409
- Birth control, 191-3
- Block grants, 316, 319, 320, 323, 433
- Bonus shares, 79
- British Trade Corporation, 238
- Building Guilds, 159, 175
  - trade, 58, 59
  - , *see also under* Housing
- Bulk purchase of imports, 252, 300, 301, 430, 431
- Canada, 298
- Canals, 148
- Capital, appreciation of, 381, 409, 435
  - , export of. *See* Investment, overseas
  - , flow of (statistics), 451
  - for agriculture, 261-2
  - , forms and uses of, 205-9
  - , need for better distribution of, 30, 70, 77, 241, 424, 429
  - , supply of, 77, 80, 84, 140, 201-23, 232-4, 261-2, 381, 382, 396, 397, 398, 412, 429
  - , taxation of, 381
  - , *see also under* Investment and Saving
- Capital levy, 372
- Capitalism, defined, 131
  - , post-war policy of, 4, 88-115, 419
  - , present position of, 32
- Cartels, 39, 278
  - , *see also under* Trusts and combines
- Chamberlain, Joseph, 6
- Chemical industry, 115, 120, 121, 127, 138
- Child Welfare services, 316
- China, labour conditions in, 294
  - , trade with, 307
- Coal, European cartel proposed, 39
  - , exports of, 29, 290
  - , —, marketing, 290

Coal, royalties on, 140  
 Coal mines, changing character of, 126  
 —, connection with steel industry, 121, 137-9  
 —, control of, under socialisation, 139-40  
 —, hours in, 145  
 —, labour conditions in, 97, 112  
 —, National Pool proposed, 180  
 —, post-war depression in, 15, 34, 36, 37, 105, 106, 144-5  
 —, Sankey Commission on, 3  
 —, socialisation of, proposed, 3, 8, 137, 144  
 —, supply of capital for, 74, 85  
 —, unemployment in, 144-5  
 —, wages in, 145  
 Coal Mines Eight Hours Act, 145  
 Coal-owners, policy of, 105, 106  
 Cohen, J. L., 402, 403  
 Collective contract, 165, 428  
 — piece-work, 96, 165 *n.*  
 Collectivism, 9, 134, 172, 422  
 Communism, 311, 422  
 Companies, subsidiary, 210  
 Company law, amendment of, 72, 78, 83, 122  
 — reserves, 215, 383, 429  
 Compensation, terms of, 143  
 Consumers, attitude of, to control of industry, 154  
 Cook, A. J., 109  
 Co-operative Movement, attitude of labour to, 176  
 —, future of, 176-7, 277-82, 431  
 —, *see also under* Agricultural co-operation  
 Co-operative Wholesale Societies, 266, 277  
 Corn Laws, repeal of, 22, 24  
 Cotton Exchange, Liverpool, 285, 286  
 Cotton industry, investment in, 81  
 —, labour conditions in, 97  
 —, marketing in, 285  
 —, post-war depression in, 15, 32, 36, 106, 182, 294, 307  
 —, reorganisation of, 147, 152  
 Credit, 208, 224-46, 281-3, 429, 430  
 —, influence of, on price-level, 239, 244  
 —, State, for industry, 175, 176, 219, 283, 396, 397  
 —, *see also under* Banking, Agricultural credit, Export Credits  
 Crown Colonies, economic policy in, 299  
 Currency, regulation of, 228-9, 239-240  
 Customs and Excise, yield of, 384

Dalton, Hugh, 377, 378, 379  
 Davison, R. C., 66  
 Death Duties, 375, 376, 378, 380, 388, 409, 435  
 —, *see also under* Inheritance  
 Debt, National, 2, 76, 205, 217, 365-388, 391, 394, 397, 408, 411, 434  
 —, conversion of, 371, 397, 434  
 —, repayment of, 27, 373, 374, 376, 379, 390, 408, 434  
 —, repudiation of, 371, 434  
 —, to America, 374 and *note*  
 Democracy, 160, 168  
 De-rating, 30, 31, 315-16, 319, 322, 389 *n.*, 390, 406, 408, 433  
 De-rating Act. *See under* Local Government  
 Diplomacy, future of, 395  
 District Auditor, powers of, 337  
 Distribution, by producers, 277  
 —, costs of, 276-9  
 —, increased employment of labour in, 277  
 —, retail, 280, 281  
 —, State control of, 283, 286, 431  
 —, wholesale, 280, 283  
 —, *see also under* Marketing  
 Dominions, economic relations with, 296-7  
 —, *see also under* Empire  
 Drink. *See under* Liquor  
 Education, 341-64, 404, 405  
 —, administration of, 344, 351, 434  
 —, adolescent, 362, 363  
 —, adult, 356, 359-63, 434  
 — and Trade Unions, 360, 361  
 — and unemployment, 405  
 —, class distinctions in, 345, 347, 350, 351, 356, 364  
 —, cost of, 384, 404-5, 408  
 —, elementary, 341, 343-6, 351  
 —, extra-mural, 356-7, 359  
 —, Hadow Report on, 343, 345, 346, 349, 363  
 —, higher, 341, 343-6, 349-51, 363, 434  
 —, manual, 347  
 —, regionalism in, 352  
 —, rural, 344  
 —, Scottish, 352  
 —, secondary, free places and maintenance allowances in, 346, 351, 353, 363, 405, 434  
 —, proposed new type of, 346, 348, 349, 353, 434  
 —, technical, 342, 347  
 —, University, 341, 342, 344, 352, 354-9, 363, 434  
 —, *see also under* Schools, Teachers  
 Education Act (1918), 342

- Electrical industry, growth of, 45  
 Electricity, development of, 69, 269, 327, 332, 424  
 Electricity Act, 68, 74  
 — Board, 141, 142, 151, 332, 333  
 Emigration. *See under* Empire Settlement  
 Empire, figures of trade with, 442  
 —, growth of, 303  
 —, possibilities of trade with, 38-43, 274, 292-311, 431  
 —, preference to, 296, 297, 387, 432  
 Empire Marketing Board, 41, 300, 301, 432  
 — settlement, 43, 293, 297  
 Employment, changes in industrial distribution of, 446  
 —, *see also under* Unemployment  
 Employment and Development Board, proposed, 76, 77  
 Entertainment Tax, 386  
 Entomology, Imperial Bureau of, 301  
 Equality of incomes, 199  
 Europe, prospects of trade with, 38-41, 293  
 Excess Profits Tax, 4  
 Expenditure, national, as it is, 368, 389-91  
 —, projected, 389-413, 435-6  
 Experts, place of, in socialised services, 136, 155, 170, 242, 243, 424, 426  
 Export Credits, 397  
 — trade, organisation of. *See under* Marketing  
 Exports, British, after the War, 29, 108, 441-3  
 —, invisible, 28  
 Factory Acts, improvement of, 168, 173  
 Family allowances, and agricultural workers, 269, 428, 431  
 — and cost of production, 185  
 — and population, 189-91, 403, 428  
 — and unemployment, 53, 400, 402, 428  
 —, case for, 178-200, 388, 411  
 —, cost of, 403, 408, 435  
 —, in kind, 187 *n.*, 403 *n.*  
 Federal Reserve system in U.S.A., 267  
 Fighting services, cost of, 368, 390-394, 409, 434  
 Financial houses, London, 226, 237, 243  
 Food Council, 288  
 — production, 271, 273-4, 430  
 Foodstuffs, imported, cost of, 255, 439  
 Foreign Exchanges, 240  
 Free Trade, attitude of Socialists to, 386-8  
 —, effect of, on prices, 118  
 —, theory of, 22  
 —, *see also under* Tariffs  
 Frozen Credits, 235  
 Fuel Conference, International, 302 *n.*  
 Germany, labour conditions in, 117, 163-4  
 Gold Coast, economic conditions in, 295  
 — standard, 5, 225, 240-41  
 Guild Socialism, 8, 17, 133, 156, 158, 159, 161, 165, 171, 175, 422, 427  
 Guilds, future of, 176  
 Happiness as a political principle, 16-21  
 Health, Public, 316  
 Hobson, J. A., 71  
 Hours Convention, Washington, 145, 173, 432  
 Housing, 59, 76, 175, 326, 329, 338, 398, 424  
 —, *see also under* Slum Clearance and Town-planning  
 Imperial Economic Committee, 300  
 — Conference, 297  
 Imperialism, 292-311, 418, 432  
 —, *see also under* Empire  
 Imports, control of, 247-75, 287  
 —, sources of, 439-40, 443  
 —, value and amount of, 439-40  
 —, *see also under* Foodstuffs  
 Income, national, 411  
 Income Tax, 213, 381-3, 388, 409  
 India, labour conditions in, 294, 307, 308  
 —, trade with, 298, 299, 307  
 Industrial combination. *See under* Trusts  
 — Courts, proposed, 167, 428  
 — legislation, 174, 432. *See also under* Factory Acts, Minimum wage, Trade Boards  
 — peace, 109  
 — psychology, 17, 89, 113, 162, 163  
 — research. *See under* Research  
 — Revolution, 26  
 — training for unemployed, 53, 424  
 — transference, 31, 447-8  
 Industries, breakdown of demarcation between, 126, 137  
 Inheritance, taxation of, 375-80, 435  
 Insurance, socialisation of, 219-20  
*Intelligentsia*, attitude of, 16  
 Interest, rates of, 71, 80, 232, 233, 370

International Economic Conference, 38, 40, 306  
 — Labour Organisation, 174, 306, 432  
 — trusts and combines, 306  
 Investment, Board of National, proposed, 76-83, 152, 153, 155, 188, 203, 205, 217, 219, 237, 241, 242, 243, 244, 262, 264, 268, 269, 283, 326, 397, 398, 424, 426, 427  
 —, control of, 70, 83  
 — in the Empire, 43, 296-301, 451-2  
 —, overseas, 25, 28, 43, 80, 207, 412  
 —, process of, described, 204  
 Investment Trusts, 78-80, 203, 397

Kenya, economic conditions in, 295

Labour, attitude of, under modern industrial conditions, 103  
 —, pleasure or irksomeness of, 16  
 —, relations between skilled and unskilled, 94, 98-9  
 —, superior skill of British, 26  
 —, transferability of, increased, 100, 137

Labour Colleges, National Council of, 359, 360

Labour Corps, proposed National, 51-5, 57, 83-4, 323, 396-401, 406, 412, 424

—, —, rates of pay, 52, 401, 424

Labour Government of 1924, 59, 69, 112, 189, 288

Labour Party, and agricultural workers, 197

— and right to work, 9

— and Trade Unions, 112, 173, 175, 189, 428

—, programme of, 76, 133, 146, 147, 156, 181, 187, 197, 241-2, 246, 383, 414-22

—, war-time growth of, 2, 7

Land drainage, 76, 424

—, occupying owners of, 256, 258

— socialisation proposed, 258, 268, 430

— system, British, 256

—, urban, 260

— valuation, 259

— values, taxation of, 259, 269, 407, 430, 433

Landed estates, break-up of, 380

League of Nations, 38, 304, 305, 306, 395, 432

Liberal industrial policy, 76, 129

Liberalism in nineteenth century, 2, 11

Liquor, taxes on, 384, 435

Local Authorities Enabling Bill, 325, 433

Local Government, areas, 312-13, 326-30, 333, 335-6, 433

— audit, 337

—, central control of, 337

— finance, 30, 31, 260, 313, 315, 316, 318-20, 336, 430, 433

— in rural areas, 327

— in urban areas, 327, 328, 329, 331, 335-6

— powers, 324, 335, 433

—, problem of, 312-40

—, Royal Commissions on, 330

Local Loans Fund, 326

London, government of, 330

McKenna, R., 240

McKenna Duties, 386, 441

Malaya, 298

Mandated territories, treatment of, 304, 432

Marketing, collective, 278, 283

—, need for better organisation of, 120, 250, 265, 276-91, 430

—, of exports, 278, 290

—, *see also under* Distribution, Empire Marketing Board, Merchants

Melchett, Lord, 38, 50, 109, 110, 120, 121, 127

Melchett-Turner conferences, 109, 111, 114, 175, 425

Mercantilism, 25

Merchants, position of, 291

Meston Committee, 316

Minimum wage legislation, 11, 183, 187-9

Motor trade, 45, 95, 98

Municipal banking, 132

— coal supply, 282

— enterprise, 131, 176, 324, 326

— milk supply, 282

Nationalisation, need for restatement of policy, 127, 130-57

—, *see also under* Socialisation

Nationalism, 311 *n.*

Native labour, exploitation of, 294, 305, 432

Navy, cost of, 393, 394

New industries, rise of, 45

Nigeria, economic conditions in, 295

Oil, international combines in, 306

—, trade in, 298

Output, restriction of, 92, 104-5, 107, 121, 122

Parliament, reform of, 156

Payment by results, 96, 97

- Peace Treaties, economic effects of, 293, 304  
 Pensions, War, cost of, 391  
 Percentage grant system, 316, 317, 319, 320, 322, 323, 433  
 Police grants, 317  
 Poor Law grants, 338  
 — Laws, and relief of unemployed, 49, 313-14, 323, 402, 406  
 — —, reform of, 317, 320, 323, 433  
 — —, Royal Commission on, 10, 317  
 Population, 190, 403, 428  
 Power and Transport Commission, proposed, 150, 151, 155, 243, 427  
 — Conference, World, 302 *n.*  
 Press, attitude of, 13  
 Prices, control of, 276-91, 431  
 —, stabilisation of, 251  
 Produce markets, 284  
 Profiteering Act, 92, 288  
 Protection. *See* Tariffs  
 Protective duties, yield of, 386  
 Public Works Loans Board, 76, 78  
 Publicity, need for, in industry, 426, 431  
 Quantity theory of money, 239  
 Railmakers' Association, European, 306  
 Railway rates, 148, 289  
 Railways and nationalisation, 147-8  
 — and road competition, 147, 148  
 Rationalisation of industry, 37, 88-115, 116-29, 162, 193, 425  
 Reconstruction after the War, 1  
 Regionalism, 330, 331, 332, 333, 339, 352, 407, 433  
 Relief works, 49, 50, 66-7  
 Research, economic, need for, 301  
 —, grants for, 408, 432, 434  
 — in Universities, 357, 363  
 —, industrial, 83  
 Research associations, 357  
 Right to Work Bill, 9  
 Rignano, E., 375, 377, 378, 379, 380  
 Road administration, 318, 322  
 — development, schemes of, 70, 148, 424  
 — Fund, 314, 322, 390, 391  
 — transport, growth of, 314  
 Rubber, trade in, 208  
 Russia, trade with, 308  
 Russian Revolution, 415  
 Safeguarding duties, 386  
 — —, and *see under* Tariffs  
 Saving, alternative methods of capital accumulation, 220-21  
 Saving, amount and uses of national, 71, 201-23, 412  
 —, *see also under* Capital and Investment  
 Savings Banks, 219  
 School building, 353, 355  
 — leaving age, 342, 343, 346, 347, 349, 350, 353, 404, 406, 434  
 — meals, 342  
 — medical service, 342  
 Schools, central, 344-7  
 —, special, 342, 434  
 —, *see also under* Education  
 Scientific management, 88-90, 96, 162  
 Shaw, Bernard, 199, 200  
 Shipbuilding, position of, 29  
 Silk industry, artificial, 45  
 Slum clearance, 57, 76, 424  
 Small holdings, 261, 270, 271, 430  
 Smith, Adam, 24  
 Snowden, Philip, 381, 383, 386  
 Social insurance, cost of, 369  
 — services, cost of, 368, 385, 390, 391  
 Socialisation, as an economic policy, 130-57, 172, 176, 377, 426  
 —, *see also under* Nationalisation, Coal mines, Banks, Insurance, etc.  
 Socialism, in war-time, 1, 418  
 —, need for restatement of, in post-war terms, 8, 130, 137, 156, 417-18  
 —, policy of, 132-3, 414-22  
 —, psychological basis of, 17-18  
 Stabilisation of prices. *See under* Prices  
 Standardisation, effect on labour conditions, 94-5  
 State control, war-time, 285  
 — —, *see also under* Socialisation  
 Steel cartel, European, 39, 306  
 Steel industry, development abroad, 27  
 — —, reorganisation of, 121, 138, 147, 152, 290  
 Stock Exchange, 75, 205, 211, 234, 236, 410  
 Strikes, future of, 102, 172  
 Subsidies to industry, policy of, 50, 146  
 Sugar, taxes on, 386  
 Surtax, proposed, 372, 373, 381, 382, 383, 388, 409, 435  
 Tariff policy, European, 38-9, 306  
 — reformers, policy of, 28  
 Tariffs, effects of, on prices, 248, 249  
 —, imperial. *See under* Empire, preference



- Tariffs, of foreign countries, 23, 24, 306  
 — on foodstuffs, 248, 249  
 —, removal of, 387  
 —, *see also under* Agricultural protection, Free Trade, Safeguarding duties  
 Tawney, R. H., 404, 405  
 Taxable capacity, national, 202, 411, 435-6  
 Taxation, 365-88  
 — as a means of expropriation, 143  
 — as a means of redistributing incomes, 184, 185, 196, 198, 220, 366, 411, 413, 435, 436  
 — at source, as alternative to saving, 222  
 —, direct and indirect, 368, 388, 409, 435  
 —, effects on cost of production, 184, 185  
 —, effects on investment market, 205, 212, 213  
 —, effects on saving, 184, 217, 222, 380, 382, 429  
 —, evasion of, 378  
 —, level of, in Great Britain, 366, 411, 412-13  
 —, local. *See under* Local Government finance  
 — of company reserves, 216, 383  
 — of inheritance. *See under* Inheritance  
 — of land. *See under* Land  
 — of liquor. *See under* Liquor  
 — of luxuries, 388, 409, 435  
 —, workers' share in burden of, 384  
 —, yield of, 388, 410, 411, 436  
 —, *see also under* Tariffs, Safeguarding, Customs and Excise, etc.  
 Tea, duty on, 386  
 Teachers, self-government for, 363  
 —, supply of, 354, 405  
 —, training of, 342, 354, 355, 434  
 Town-planning, 329, 338, 398  
 —, *see also under* Housing  
 Trade, balance of, 29, 30, 438  
 —, British, future of, 22-47, 181, 273, 423, 437  
 —, condition of, since the War, 4, 7, 28, 29, 91, 437  
 Trade Boards, 188, 189  
 — cycle, alleged, 44  
 — facilities, 397  
 — Unionism, and control of industry, 159, 160, 427  
 — and family allowances, 196  
 — and Melchett-Turner conferences, 109-10, 114, 425  
 — and wages, 189, 196  
 Trade Unionism, and workshop organisation, 164, 165, 425  
 —, effect of War on, 2  
 —, future of, 101, 172-3, 425  
 —, power of, 64, 93, 425  
 —, pre-war policy of, 11  
 —, reorganisation of, 99, 425, 427  
 — Unions and Trade Disputes Act, 173  
 Trades Union Congress under Labour Government, 175  
 Trusts and combines, 91, 120-21, 126, 139  
 —, attitude of employers to, 128, 425  
 —, attitude of State to, 128, 138, 139, 426  
 —, effects of, 126, 279  
 —, international, 306  
 —, law relating to, 121, 426  
 —, State control of, 128, 129  
 Unemployment, 4, 6, 9, 10, 15, 43, 45, 86-7, 93, 120, 313, 400  
 — among women, 62, 63  
 — and agriculture, 271  
 — and capitalist system, 104, 118  
 — and education, 405  
 —, cost of provision for, 396, 398-402, 408, 410, 435  
 —, industrial and local distribution of, 445  
 — since the War, 48-67, 181, 423, 424  
 —, statistics of, 444  
 —, *see also under* Employment  
 Unemployment Insurance, 49, 50, 313, 398-400  
 Universities. *See under* Education, University  
 — Commission, proposed, 358  
 Victoria County History, 357  
 Wages, 178-200  
 — and cost of living, 450  
 — and unemployment, 450  
 —, demand for higher, 103, 181, 428  
 —, economy of high, 11  
 — since the War, 3, 10-11, 94, 180  
 —, statistics of, 449, 450  
 Washington Hours Convention, 145, 173, 432  
 Webb, S. and B., 155, 156  
 Welfare work, 162  
 Welwyn Garden City, 264, 339  
 Wheat Control Board, proposed, 252, 253  
 — production in Great Britain, 254-255, 430  
 Widows' Pensions, 402

- |  |                                      |
|--|--------------------------------------|
| Woollen trade, position of, 29           | Works Councils, proposed, 164-8,     |
| Workers' control, sphere of, 158-77      | 170, 171, 428                        |
| — —, <i>see also under</i> Guild Social- | Workshop conditions, control of, 93, |
| ism, Trade Unionism, Work-               | 94, 113, 427                         |
| shop conditions                          |                                      |
| Workers' Educational Association         | Younger generation, 12, 13           |
| 356, 359, 360, 361, 434                  |                                      |

THE END



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